



Price Submission 2023

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## Acknowledgement

*South Gippsland Water proudly acknowledges Aboriginal people as Australia's first peoples and the local Traditional Owners, Gunaikurnai and Bunurong, as the original custodians of the land and water on which we rely.*

*We pay our deepest respects to their Elders, past, present and emerging. We acknowledge the continued cultural, social and spiritual connections that Aboriginal people have with the lands and waters and recognise and value that the Traditional Owner groups have cared for and protected them for thousands of generations.*

*In the spirit of reconciliation, we remain committed to working in partnership with local Traditional Owners to ensure their ongoing contribution to the future of the water management landscape while maintaining their cultural and spiritual connections.*

# 1 Executive Summary

## 1.1 Chair and Managing Director message

We are pleased to present South Gippsland Water's Price Submission to the Essential Services Commission and our region's communities.

This Price Submission, developed in partnership with our customers, continues our long-term plan to secure the future of our services, our region, our environment and the resilience of our communities and businesses.

Customers told us that they want us to maintain and renew assets, continue to deliver current service standards and invest in environmental projects, even if it means a modest increase to their bill.

We will continue our considerable focus on safety and the environment, with projects to ensure ongoing regulatory compliance and a target to source 100% renewable electricity by 2025 and net zero emissions by 2035.

Delivering key capital projects will set up our growing region for the future to ensure we can continue to provide reliable services to residential and non-residential customers. Our capital investment program increases across the five-year period. A major trade waste asset will be upgraded and renewed, which will serve our largest customers who are significant regional employers.

Our operating environment is changing, with increased uncertainty in economic activity and climate impacts. This means we will have ongoing future challenges. To meet customer expectations, we need to increase our baseline expenditure and the capital investment. To maintain financial sustainability, an increase in prices over the five-year period is required.

Our proposed balance of price, service and affordability is aligned with our customers' support for investment to secure services for future generations. Consistent with our 2020 Price Submission, we are proposing to continue with a price path of real price increases of 2%, 2%, 3%, 3%, 3% for the years 2023–24 to 2027–2028.

We will continue to focus on and support customers who may be experiencing challenging times. We have been engaging with residential and non-residential customers who may be experiencing financial hardship, through a range of programs and will introduce new programs, such as our 'co-payment' scheme, in the period.

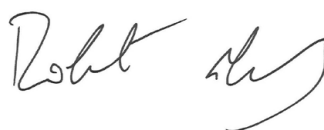
We have accepted a considerable amount of risk and are proposing a revenue gap of \$7.1 M for the period to maintain affordability for our customers.

We are delivering the outcomes customers have asked for and they support the financial implications. The modest price increase will secure our future and that of generations to come.

We are committed to the programs identified within this submission to deliver on our Customer Outcomes via a consistent, well-planned pathway forward.



**Philip Clark**  
Chair



**Robert Murphy**  
Managing Director

## 1.2 Director Attestation

South Gippsland Water's Directors have provided oversight to all areas of the submission planning and development. Key outcomes and decision points have been presented to the Board in a staged program to ensure careful consideration to the Price Submission development and customer value. In addition, the engagement and capital programs were a significant focus of the Engagement and Planning Committee.

### Attestation

The Directors of South Gippsland Water, having made such reasonable inquiries of management as we considered necessary (or having satisfied ourselves that we have no query), attest that, to the best of our knowledge, for the purpose of proposing prices for the Essential Services Commission's 2023 water price review:

- *information and documentation provided in the price submission and relied on to support South Gippsland Water's price submission is reasonably based, complete and accurate in all material respects;*
- *financial and demand forecasts are the business's best estimates, and supporting information is available to justify the assumptions and methodologies used; and*
- *the price submission satisfies the requirements of the 2023 water price review guidance paper issued by the Essential Services Commission in all material respects.*

## 1.3 Key messages

- *South Gippsland Water's 2023 Price Submission is based on extensive customer engagement that tested our Customer Outcomes and confirmed five key areas they value – safe, clean drinking water, wastewater treatment, water reliability, integrity and the environment.*
- *Our commitment to customers is to maintain existing service levels with a strengthening of Customer Outcome measures to increase our accountability and transparency.*
- *Our 2023 Price Submission is built on delivering these Outcomes and prioritising long-term planning to secure the future of our services, the region, the environment and the resilience of our communities and businesses.*
- *We have expanded on our previous engagement with customers and have engaged with our customers through surveys, community visits, workshops, personal interviews, and our Community Advisory Committee.*
- *We propose capital investment of \$133.1 M:*
  - *\$ 57.5 M to support reliable services in our growing and developing region*
  - *\$18.6 M to support our region's two major customers and protect the environment*
  - *\$39.8 M renewal programs to support reliable services for future generations*
  - *\$16.7 M for projects driven by compliance*
  - *\$0.5 M for projects driven solely by business improvements.*
- *Our proposed base year operating costs of \$22.4 M are primarily due to staffing and technology capability uplift.*
- *We have included a 1.4% efficiency improvement reduction from base year operating expenditure.*
- *We have assigned risk to South Gippsland Water where possible, including operational service risk, construction risk, and financial risk.*
- *We are proposing an 'individual price caps' form of price control (reflects the overall rate of inflation), over the five-year regulatory period.*
- *Our submission represents our best offer of prudent and efficient investment.*

*"I am encouraged that South Gippsland Water's leadership and staff are serious about their individual and collective responsibilities to deliver safe, clean, reliable water and waste water services. They are being genuine about their efforts to listen to the individuals and groups within the communities they serve and also accommodate the unique challenges some consumers face whilst at the same time seeking to be the good corporate citizen in relation to the ever challenging environmental issues facing us today."*

*Kevin Davies – Community Advisory Committee member*

- This Price Submission continues our pathway toward securing our region's future with a proposed modest price increase supported by customers.

Table 1: Average residential tariff bill (121 kL p.a.)

Per year	2023–24	2024–25	2025–26	2026–27	2027–28
Real price	\$1,177	\$1,200	\$1,236	\$1,273	\$1,312
\$ increase	\$23	\$24	\$36	\$37	\$38
% increase	2.0%	2.0%	3.0%	3.0%	3.0%

- We have heard the lived experiences of customers facing payment difficulties through an expanded in-depth interview program with customers and their support agencies. Their feedback has resulted in a new co-payment program to assist in reducing debt and access to supports for small businesses.
- To continue to deliver the programs required to deliver secure services into the future, and avoid price shock to customers, we are proposing a \$7.1 M revenue shortfall.

## PREMO rating

We have assessed our overall aggregated PREMO score as 10.5 – Standard.

Figure 1: SGW PREMO rating



## 2 PREMO - Performance

### At a glance...

- *Our customers are very satisfied with our services and believe we provide value-for-money.*
- *We have met the majority of our Customer Outcome targets over the period.*
- *We have taken ownership of performance shortfalls experienced over the past period and implemented improvement programs .*
- *Our prescribed operating expenditure is within 10% of the PS2020 Determination.*
- *Capital investment for the period exceeded the planned amount by 11.2%, largely due to investment on wastewater systems to protect the environment.*

### Background

South Gippsland Water measures customer experience and our performance against regulatory requirements in a variety of ways. Performance measures and reports are available in print and social media. Public documents, such as our Annual Report and customer scorecard, are available on our website.

### Reporting on performance 2018–19 to 2022–23

We report on our performance by reviewing the Customer Outcomes and the projects and programs we committed to in order to support these outcomes. We have developed a Detailed Performance Report 2018–19 to 2021–22<sup>1</sup> to determine the value we have delivered to our customers, including:

- *performance against the Customer Outcomes measures and targets*
- *performance in delivering our services within the approved operating expenditure*
- *performance in delivering the capital investment program we committed to*
- *customer satisfaction.*

### 2.1 Customer Outcome performance

Developed in 2018 and refined in 2020, we have delivered on the majority of our five Customer Outcomes, measures and targets over the current price period. Table 2 presents the summary of our performance, reported annually to the Essential Services Commission. Our Customer Outcome review process (PS2020) identified successful outcomes are a result of good planning and our Community Advisory Committee recommended to remove Outcome 1 (Planning). We adopted the recommendation and progressed with five outcomes from 2020–21.

1 SGW Detailed Performance Report 2018–19 to 2021–22

**Outcome reporting key:**

- *Achieved*
- *Minor shortfall*
- *Major shortfall*
- *PS2020 customer engagement recommendation to remove*

Table 2: Summary of the Customer Outcome report to the Essential Services Commission 2018–19 to 2021–22

Outcome	2018–19	2019–20	2020–21	2021–22	2022–23
<b>Planning</b> We will partner with community, local government and business to plan for future years			PS2020 customer engagement recommendation to remove		
<b>Reliability</b> 1. We will plan for the future, be reliable, minimise unplanned interruptions to services					TBC
<b>Water</b> 2. Provide safe, clean drinking water for the benefit of our customers and communities					TBC
<b>Wastewater</b> 3. Provide a safe wastewater service that contributes to the health and liveability of our communities and environment					TBC
<b>Environment</b> 4. Be environmentally responsible, sustainable and adapt to a future impacted by climate variability					TBC
<b>Integrity</b> 5. Treat all customers/community with honesty, respect and strive to balance affordability, value-for-money and fairness					TBC
<b>Overall Customer Outcome Performance</b>					TBC

Over the current price period, while we met each Customer Outcome overall, we did not meet all of our agreed, individual Customer Outcome targets in Reliability, Water and Environment. Two significant events (EPA licence enforcement actions) occurred that impacted our performance in Wastewater.

Further detail on our performance, the programs we committed to delivering, and shortfalls in performance against each Customer Outcome is provided below.



## Outcome 1: Reliability

### Our performance metrics

	Target	2018–19	2019–20	2020–21	2021–22	2022–23
Water security outlooks for SGW's water supply systems are developed and published in November each year.	Met	Met	Met	Met	Met	TBC
Average response time to sewer spills and blockages	<30 Minutes	34.3	30	26	22.7	TBC
Average response time to water bursts and leaks (Priority 1)	<30 Minutes	17	21	17	16.5	TBC
Average duration of unplanned water supply interruptions	<100 Minutes	129	90	81	77.9	TBC
Containment of sewer spills within five hours	100%	100%	94%	PS2020 recommendation to remove		
Unplanned water interruptions restored within five hours	99%	96%	99%	PS2020 recommendation to remove		
Number of complaints related to communication of planned works	0	0	0	PS2020 recommendation to remove		

Programs committed to	Delivery
Undertake a renewal program of sewer reticulation (\$2.4 M) and water reticulation (\$2.4 M) pipes across the region	Met On track and further explored in our detailed Performance Report 2018–19 to 2021–22.

Shortfall in performance	Activity to rectify shortfall
Response to sewer spills	Improved process with field staff closing work orders in real time and increased accuracy in reporting times.
Duration of unplanned water interruptions	A program of shut-down valve installations across the network meant reduced customer impact (for each fault), as well as quicker restoration times.
Unplanned water interruptions restored within five hours	A team restructure (water and wastewater) and cross-training completed, enabling all maintenance staff to respond to incidents. In addition, improved work order processes have shortened response times.

## Outcome 2: Water

### Our performance metrics

	Target	2018–19	2019–20	2020–21	2021–22	2022–23
Number of <i>Safe Drinking Water Regulations</i> non-compliance incidents	0	1	0	0	1	TBC
Customers who prefer to drink our tap water, including filtered (identified via the Customer Satisfaction Survey)	88%	93%	91%	91%	89%	TBC

Programs committed to	Delivery
Replace liners and covers for six treated water storages (\$3.3 M)	Met The program is on track for completion.  Works currently underway include the basin at Devon North and Poowong Water Treatment Plants and works previously completed include basins in Toora, Fish Creek and Wonthaggi.
Ongoing programs for minor upgrades of water treatment plants and networks (\$0.5 M) and renewal of water treatment plant assets (\$1.7 M)	Met Programs are on track for completion.

Shortfall in performance	Activity to rectify shortfall
Number of drinking water non-compliance incidents	Continued investment into water quality programs, such as the clear water storage covers and plant upgrades.

## Outcome 3: Wastewater

### Our performance metrics

	Target	2018–19	2019–20	2020–21	2021–22	2022–23
EPA licence enforcement actions per year	0	0	1	1	0	TBC

The EPA issued South Gippsland Water with enforcement action notices in:

- 2019–20 at the Foster Wastewater Treatment Plant for an emergency discharge, due to a high rainfall event, and
- 2020–21 at the Korumburra Wastewater Treatment Plant due to a high concentration of non-compliant industrial waste that was illegally discharged into the sewer network and critically impacted plant operations.

Programs committed to	Delivery
Upgrade sewerage networks in Wonthaggi (\$4.5 M) and Inverloch (\$3.7 M)	<b>Program underway – expenditure reprioritised</b> During 2018–23, \$2.9 M was spent on sewerage network upgrades in Wonthaggi and Inverloch as planned. Construction work for this program is continuing in Inverloch during 2022–23. \$1.6 M was reprioritised and allocated to higher risk upgrades in Korumburra.
Upgrade the Wonthaggi Wastewater Treatment Plant (\$3.4 M)	<b>On track</b> Detailed design in 2022 with delivery due early 2023.
Ongoing renewal programs consisting of sewer replacement/rehabilitation (\$2.4 M) and sewer pump stations (\$1.0 M)	<b>Met</b> Both programs are underway with forecast expenditure on track.
Continue to address biosolids stockpile (\$0.2 M)	<b>On track</b>

Shortfall in performance	Activity to rectify shortfall
EPA licence enforcement actions per year	<p>Trade waste monitoring program underway.</p> <p>Reviewed and adapted our capital investment program to monitor and augment 'at-risk' wastewater systems in preparation for high rainfall events, and increased population and industry growth.</p> <p>Future works are planned (see 6.3 Capital investment) for the two wastewater systems that experienced breaches:</p> <p><b>Foster WWTP</b> Wastewater treatment plant upgrade works included in the PS2023 capital program will improve effluent treatment and quality.</p> <p><b>Korumburra WWTP</b> An upgrade of the Korumburra storage lagoon and wastewater main is planned to be completed in the 2023–28 period, which was brought forward in the capital program.</p>

## Outcome 4: Environment

### Our performance metrics

		2018–19	2019–20	2020–21	2021–22	2022–23
Reduction of CO <sub>2</sub> emissions resulting from energy renewable projects (cumulative)	Target	30	120	750	1,500	TBC
		60	144	218	806	
Average household water consumption (kL per annum)	Target	125	125	125	125	TBC
		120	121	118	114	

Commissioning of new behind-the-meter solar installations was delayed by the contractors inability to attend the site during COVID-19. The delays meant we did not achieve our emissions reduction targets for 2020–21 and 2021–22.

Programs committed to	Delivery
Invest in renewable energy at South Gippsland Water sites across the region: <ul style="list-style-type: none"> <li>Lance Creek Water Treatment Plant</li> <li>Leongatha, Korumburra and Inverloch wastewater treatment plants.</li> </ul>	<b>On track</b> Behind-the-meter renewable energy systems installed at four sites.

Shortfall in performance	Activity to rectify shortfall
The target for the reduction of CO <sub>2</sub> emissions from energy renewable projects was not achieved in 2020–21 and 2021–22.	We have overcome the COVID-19 delays and our solar installation program is now on track with four renewable energy systems installed (see 6.2 Operating expenditure/ Electricity).

## Outcome 5: Integrity

### Our performance metrics

	Target	2018–19	2019–20	2020–21	2021–22	2022–23
Customer satisfaction rating of 'satisfied' or 'very satisfied'*	>80%	89%	84%	88%	87%	TBC
Customers rating South Gippsland Water's services as 'value-for-money'*	>73%	75%	74%	73%	77%	TBC

\* via the Customer Satisfaction Survey (see 2.4 Performance/ Are our customers satisfied?)

Programs committed to via the Customer Satisfaction Survey (see 2.4 Customer satisfaction rating of 'satisfied' or 'very satisfied')	Delivery
Customer satisfaction rating of 'satisfied' or 'very satisfied'	<b>Met</b> Customers have said they are satisfied with our services.
Customers rating South Gippsland Water's services as 'value-for-money'	<b>Met</b> Customers have said they receive value-for-money from South Gippsland Water.

## 2.2 Operating expenditure performance

South Gippsland Water's forecast for operating expenditure in the period 2018–23 transferred expenditure risk to the organisation (including labor, chemicals, ICT) in delivering efficient services. It did not allow any additions to the baseline operating costs that were uncertain at the time of forecasting.

Our operating expenditure over the period has fluctuated and resulted in an average overspend of approximately \$1.8 M per year, equating to a 7.6% overspend for the five-year period as demonstrated below.

Table 3: SGW operating expenditure 2018 to 2023

	Total	Per year
Price Submissions 2018–23	\$116.4 M	\$23.3 M
Forecast expenditure	\$125.3 M	\$25.1 M
<b>Increase</b>	<b>\$8.9 M</b>	<b>\$1.8 M</b>

### Controllable expenditure

#### Key variances

**Salaries +\$1 M per year:** South Gippsland Water has invested in staff capabilities. An additional 7.7 FTE over the period assisted in delivering customer value in the areas of:

- *technology to drive digital enablement and process efficiencies*
- *customer experience to implement initiatives that customers value*
- *safety resources to mitigate the potential of harm to staff*
- *responding to COVID-19*
- *maintenance resourcing to maintain water supply reliability.*

**ICT +\$0.24 M per year:** Extra investments have been made on cybersecurity, our digital strategy, and responding to COVID-19 remote working.

**Professional fees +\$0.32 M per year:** Extra spend was required for professional fees to comply with regulatory requirements.

**Chemicals +\$0.07 M per year:** Extra chemicals were required to treat the Lance Creek source water to ensure we complied with water quality standards (6.2 Operating Expenditure / Chemicals).

**Korumburra incident +\$0.1 M per year:** This one-off additional cost was spent on fixing a contamination issue at the Korumburra Wastewater Treatment Plant. Some \$0.48 M was spent in 2020–21 to maintain domestic and industrial wastewater treatment for the Korumburra township, and to protect the environment.

**Decommissioning average cost reduction of -\$0.2 M per year:** Due to redundant assets after the completion of the Lance Creek Water Connection.

## 2.3 Capital investment performance

Capital investment for the period is forecast to exceed the combined Price Determinations (2018 and 2020) by \$9.3 M (11.2%). Most of this additional investment funded discrete projects that were not included in the 2018 and 2020 Price Submissions. These projects were brought forward from a future period to protect the environment, ensure ongoing reliability of services, and address wastewater compliance risks. The additional investment helped deliver on the 2018 and 2020 Customer Outcomes of Reliability and Wastewater.

Price Submissions 2018–23 approved	\$83.2 M
Decrease on planned expenditure	-\$1.6 M (1.9%)
Unplanned expenditure wastewater	\$9.0 M (10.8%)
Unplanned expenditure water	\$1.9 M (2.3%)
Forecast expenditure	\$92.5 M
<b>Increase</b>	<b>\$9.3 M (11.2%)</b>

### Planned capital investment

We forecast spending \$1.6 M below the planned investment of \$83.2 M on projects and programs from the previous Price Submission. This equates to investment of \$81.6 M.

### Unplanned capital investment

In response to unexpected wastewater spills, treated effluent quality, and water quality reliability, we invested an additional \$10.9 M in at-risk systems to minimise impacts to customer service and the environment. These include:

- *Korumburra Sewer and lagoon upgrades<sup>2</sup> (forecast \$5.6 M to the end of 2022–23) – to support growth in the area while addressing lagoon storage capacity issues – both of key importance to customers.*
- *Venus Bay Outfall (forecast \$2.9 M to the end of 2022–23) – planning work to provide the necessary infrastructure for the two largest dairy producers in the region. This upgrade also supports the wider dairy sector, our environment and regional development (see Chapter 6.3 Capital investment/Major projects).*
- *Leongatha Wastewater Treatment Plant<sup>3</sup> (\$0.5 M) – to protect the receiving environment and improve EPA Discharge Licence compliance.*
- *Wonthaggi and Leongatha water mains renewal<sup>4</sup> (\$1.4 M) – to ensure we continue to provide reliable services to the commercial areas in Wonthaggi and Leongatha. We aligned the Leongatha water mains renewal with South Gippsland Shire Council's major streetscape renewal and reduced customer business disruption.*
- *Upgrade of Leongatha Water Treatment Plant<sup>5</sup> (\$0.5 M) – to maintain a safe, clean drinking water supply for Leongatha.*

We have improved our asset planning, in particular for growth and renewal projects, reducing the likelihood of unplanned capital expenditure for future price periods.

## 2.4 Customer satisfaction

Customer satisfaction is important to our organisation and is measured internally via our annual Customer Satisfaction Survey<sup>6</sup> and externally via the Essential Services Commission performance reporting process.

*South Gippsland Water's Customer Satisfaction Survey* is completed by a third-party provider, as part of a Customer Satisfaction Benchmarking Alliance, established by the Gippsland water corporations.

*Essential Services Commission performance reporting* is completed quarterly. Over the period, South Gippsland Water is consistently ranked amongst the top 50% of water corporations under the satisfaction rating.

2 Korumburra Sewer and Lagoon Upgrades - PBC 2021 to 2023

3 Leongatha Wastewater Treatment Plant Upgrade Anoxic Zone Business Case

4 Water Main Renewals - Graham St, Wonthaggi & Bair St, Leongatha, Tender Reports

5 Leongatha Filter Renewal Report

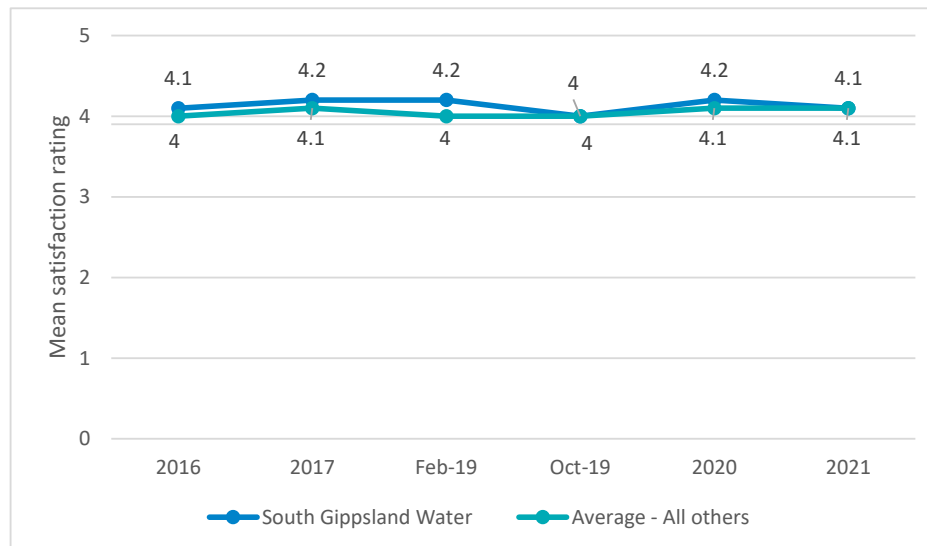
6 2020–21 Insync Customer Satisfaction Survey

## Satisfaction

Our Customer Satisfaction Survey shows over the past five years, customers are very satisfied with our performance. Figure 2 demonstrates our performance against the alliance members in 2016 to 2021. Our performance has always been above the group average and at the top of the band for four of the six years.

South Gippsland Water is ranked fourth for Satisfaction in the Essential Services Commission Water Performance Report 2020–21.

Figure 2: Customer Satisfaction Gippsland Benchmarking Alliance 2016–2021



Q: "Overall, how satisfied are you with South Gippsland Water as a service provider?"

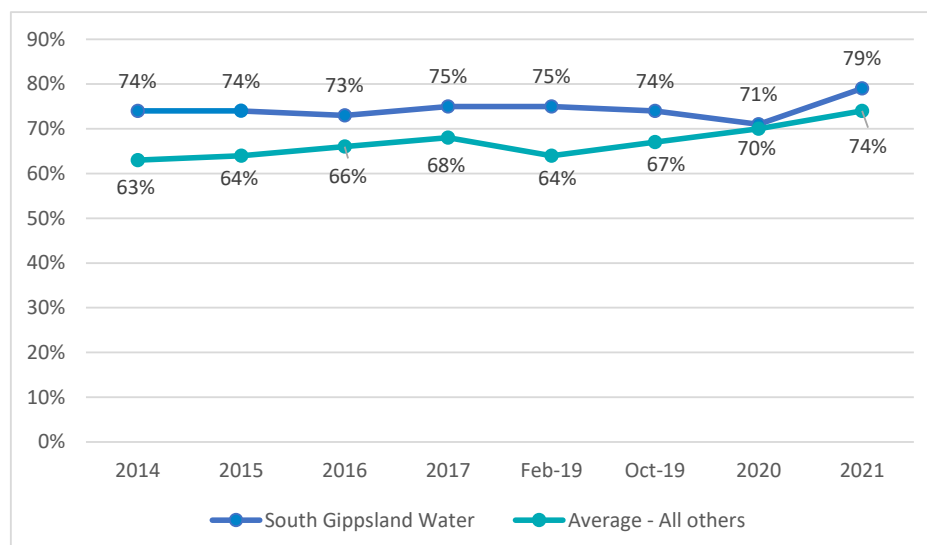
## Value-for-money

The Essential Services Commission's process, along with our own processes, measures customers' perceptions of value-for-money.

Customers have said they receive value-for-money from South Gippsland Water. We are rated amongst the top 50% of water corporations across Victoria in the annual Essential Services Commission's Water Performance Report. Furthermore, Figure 3 demonstrates our performance in comparison to the Customer Satisfaction Benchmarking Alliance. We are consistently above the average of the group.

South Gippsland Water ranked third for Value-for-money in the Essential Services Commission Water Performance Report 2020–21.

Figure 3: Value-for-money results across the Customer Satisfaction Gippsland Benchmarking Alliance



Q: Agreement with statement "Yes" I receive value-for-money from my water provider.

## 3 PREMO - Risk

### At a glance...

- *Risk is allocated to South Gippsland Water wherever prudent.*
- *To minimise price shock to customers, a revenue shortfall of \$7.1 M is aligning financial risk to South Gippsland Water.*
- *Our submission recognises future uncertainty as a result of COVID-19 and the ongoing risks to South Gippsland Water.*
- *The proposed capital program has no speculative expenditure.*

### 3.1 Corporate risk management approach

Delivering against the commitments in our 2023 Price Submission is not without inherent risks. In identifying and managing these risks, we acknowledge these fundamental requirements:

- *commitment to customers to maintain existing service levels*
- *delivering Customer Outcomes in the areas they value, Reliability, Water, Wastewater, Environment, and Integrity*
- *long-term planning to secure the future of our services, our region, our environment and the resilience of our communities and businesses*

Effective risk management is delivered via a whole-of-organisation approach. Risk identification, risk rating, and allocation of risk is integral to our decision making, strategic planning and work practices.

Our Risk Management Framework<sup>7</sup> is the basis for all our decision-making processes and is consistent with ISO 31000:2018 in managing ongoing risk identification, quantification, control, monitoring and review. Oversight of risk is via the Audit and Risk Management Committee and the Board.

Furthermore, the Price Submission development process has been completed with consideration to the balance of risk between the level of service delivered to customers, the timing of projects and programs and allocation of cost.

Uncertainties due to COVID-19 with resultant economic challenges in future planning for ourselves, our contractors, our suppliers and our customers, have reinforced the importance of a robust risk management process.

Additional analysis has been completed to ensure the submission is based on suitable 'best estimates' of financial and demand forecasts with analysis of key risks presented below.

## 3.2 Review of key risks

### Inflow risk

<b>Risk</b>	Inability to provide a secure water supply, particularly the Ruby Creek and Tarra River water supply systems which require immediate attention under a high climate change scenario. Under high climate conditions, demand may exceed supply for our Lance Creek water supply system, during the 2020s. This system services 63% of our customers.
<b>Controls</b>	<p>We have adopted an adaptive planning approach in combination with several business processes:</p> <ul style="list-style-type: none"> <li>• A thorough assessment of inflow risk providing a contemporary understanding of the impacts of climate change and demand was completed to inform our 2022 Urban Water Strategy<sup>8</sup></li> <li>• We continuously track inflows, storage volume and demand.</li> <li>• A Security Outlook, based on water resource modelling, is developed each year and shared with state government and customers.</li> <li>• Projects are planned and developed to augment water supplies when the agreed level of security is not being met.</li> <li>• Non-revenue water is assessed annually to ensure systems are operating efficiently.</li> </ul>
<b>Allocation</b>	Our approach to water security is via our adaptive planning method and the exclusion of uncertain expenditure. The risk is primarily with the business.
<b>Position</b>	<p>Our position in planning for water supply security is to 'be prepared'. Expenditure planning is based on a medium climate change scenario and the most likely demand growth forecasts. However, we are also preparing for more severe impacts so we can adapt and respond if needed.</p> <p>Only planning and design costs to upgrade the Ruby Creek water supply system have been included in the price period, placing the risk with South Gippsland Water. Purchase of additional groundwater licences for the Tarra River system has been scheduled for the period from 2028-33, while supply and demand is monitored and reviewed.</p> <p>A proposed purchase of a 2 GL of Bulk Entitlement for the Lance Creek system has been developed in consultation with customers who have proposed a mid-point purchase when given options between 0 and 4 GL. We reviewed and adopted their recommendation during development of the 2022 Urban Water Strategy. This additional water supply will be needed as early as 2027 and can be purchased from the Melbourne system at surface water prices under an agreement with State Government. The agreement sunsets in 2024 and delaying the purchase will make availability of additional Bulk Entitlement uncertain and the likely cost much greater (reflecting the cost of water produced by desalination, for example). The lowest long-term cost for customers can be achieved by purchasing surface water from the Melbourne system in 2024.</p>

### Demand and growth forecasts

<b>Risk</b>	<p>Future growth and demand forecasts have some uncertainty across both population growth in regional areas and non-residential demand.</p> <p>Impact of domestic and global trends add complexity in long-term planning for major customers (30% of demand).</p>
<b>Controls</b>	<p>We have completed a thorough analysis of our regional growth and demand forecasts using a range of methods and analysis (see 6.1 Demand).</p> <p>We have an established relationship, including regular consultation, with our two largest customers (Saputo and Burra Foods) who equate for the majority of our major customer demand.</p>
<b>Allocation</b>	Demand and growth risk is aligned to South Gippsland Water where prudent.
<b>Position</b>	<p>Recognising that the future will remain uncertain, the proposed 1.8% water and wastewater residential connection growth is in alignment with Victoria in Future forecasts. Our allocation of 121 kL residential customer water consumption is high in comparison with historical trends.</p> <p>Major customer forecasts represent a balanced risk position for South Gippsland Water.</p>



## Operational service risks

<b>Risk</b>	<p>Poor operational policies and processes result in a shortfall in health, environmental or customer performance standards.</p> <p>External events such as extreme weather result in impacts to services due to ICT or electricity disruption.</p>
<b>Controls</b>	<p>Our approach to the management of operational service risks includes:</p> <ul style="list-style-type: none"> <li>• robust risk management program to inform capital investment priorities</li> <li>• effective Quality Document system (policies, procedures, instruction etc.)</li> <li>• updated demand analysis providing a deeper understanding of our changing environment and region</li> <li>• application of our maturing asset management system, infrastructure upgrade and renewals planning</li> <li>• learning from our experiences in responding to several major incidents in recent years.</li> </ul>
<b>Allocation</b>	Allocation of operational service risks is to South Gippsland Water.
<b>Position</b>	To meet Customer Outcomes, we have prioritised and allocated expenditure to manage the operational service risks with an adaptive planning approach in place, should we need to adjust our programs.

## Construction risks

Construction risks have been identified in section 6.3 Capital investment and analysis of construction risk has identified three major risk areas – prudence, efficiency and delivery.

<b>Risk</b>	<p>Construction risks include:</p> <ul style="list-style-type: none"> <li>• The Capital program is not prudent and includes excessive or insufficient scope or contingency. The program includes projects scheduled too early or too late to meet Customer Outcomes.</li> <li>• Construction cost escalation exceeds CPI and the planned investment is insufficient.</li> <li>• The procurement approach incurs excessive South Gippsland Water or contractor indirect costs, or incurs inefficient direct costs.</li> <li>• South Gippsland Water cannot deliver on the expanded capital program.</li> </ul>
<b>Controls</b>	<p>Capital projects are based on robust assessment of business needs and consider options such as 'do-nothing' or 'business as usual'. Projects are scheduled for completion just-in-time to meet drivers such as growth or deteriorating asset performance.</p> <p>An established, proven process for capital program procurement, management and delivery.</p> <p>Projects with uncertain scope and timing have been included in future price periods, with only project development costs included in the 2023 Price Submission. Lower priority projects have also been deferred to future price periods.</p> <p>We have an established proven process for capital program procurement, management and delivery.</p> <p>Project procurement and delivery is completed with consideration of efficiency, such as bundling smaller projects, larger or multi-year contracts, consideration of self-performing or outsourcing, and standardised approaches to management.</p> <p>Forecast expenditure has been based on up-to-date cost estimates that consider construction cost escalation observed to the first half of 2022. Business cases consider recent construction experiences and costs and use P50 estimates.</p> <p>Projects are assessed based on whole-of-life costs to minimise long-term customer price impact.</p> <p>Competitive procurement seeks to maximise delivery efficiency. We are developing a procurement plan for 2023–28 capital works to minimise risk of delays during planning, design, and construction project stages.</p>
<b>Allocation</b>	Risk is primarily allocated to South Gippsland Water. The program is planned to deliver the minimum scope to meet Customer Outcomes. Price relief for items with uncertain timing or scope have not been included.
<b>Position</b>	<p>The capital program is subject to a robust planning and prioritisation process with oversight of the Engagement and Planning Committee and Board.</p> <p>The proposed capital program includes investment for projects that must be delivered in the 2023–28 period. Where timing or scope are uncertain, only project development costs have been included.</p> <p>The 2023 Price Submission includes scope to deliver on projects that minimise customer price impacts in the long term.</p> <p>The business has a track record of delivery to meet Customer Outcomes. The investment on renewal allocations between 2023–28 is consistent with investment delivered during 2018–23.</p>

## Regulatory and policy risk

<b>Risk</b>	Impact to the organisation's operating environment due to policy change from key regulatory stakeholders such as Federal and State Governments, and government agencies.
<b>Controls</b>	<p>Consideration to the identification and potential impact of changing regulation.</p> <p><i>Federal and State Government</i></p> <p>Monitor the external environment, for policy changes, and foster effective working relationships.</p> <p><i>Department of Health</i></p> <p>Department of Health advice received and reviewed against existing processes.</p> <p><i>Environment Protection Authority (EPA)</i></p> <p>Sewer networks and wastewater treatment plants are impacted by growth and have been identified as our highest risk area for EPA regulatory action.</p> <p>PS2023 program of works prioritisation process recognised risks associated with critical systems and adopted an adaptive planning approach to design and delivery of works.</p> <p><i>Department of Treasury and Finance</i></p> <p>Established processes and working relationships to assist in identification and response to changes in financial policy and compliance with the Financial Management Framework.</p>
<b>Allocation</b>	Future uncertainty in regulatory settings places alignment of this risk to South Gippsland Water.
<b>Position</b>	A robust review and monitoring process is in place to ensure oversight of our compliance in mitigating these risks. We will financially absorb the cost impact of minor changes in government policy. Our proposed form of price control also provides a degree of certainty across the period.

## Financial risks

<b>Risk</b>	<p>SGW's financial position deteriorates over the regulatory period to the point that the business is unviable, or we are unable to maintain services.</p> <p>Financial impact of expenditure areas with high volatility such as electricity costs.</p>
<b>Controls</b>	<p>Our approach to the management of financial risk includes:</p> <ul style="list-style-type: none"> <li>• monitoring rising interest rates and their impact on our total financing costs and financial indicators.</li> <li>• obtaining an independent credit rating of BBB+</li> <li>• a robust planning and prioritisation process for our capital program</li> <li>• using the IWN/Schneider model to forecast electricity costs in alignment with other water corporations</li> <li>• continually seeking cost efficiencies through innovative business practices and the use of shared services where possible, such as ZEW with respect to Large-scale Generation Certificates (LGC).</li> </ul>
<b>Allocation</b>	The risk of forecast expenditure, market events and deviations from assumptions is aligned to South Gippsland Water.
<b>Position</b>	<p>Our expenditure forecasts for the price period are based on risk adjusted estimates.</p> <p>To deliver our services and avoid price shock to customers, we have:</p> <ul style="list-style-type: none"> <li>• accepted a \$7.1 M revenue gap over the PS2023 period</li> <li>• included a 1.4% efficiency improvement rate, representing an ambitious target given the limited opportunities for economies of scale</li> <li>• not included costs that are uncertain or may be subject to variations due to external factors.</li> </ul> <p>Our revenue shortfall will be funded by borrowing, which increases gearing for the organisation.</p>

## 4 PREMO - Engagement

### At a glance...

- *Key priorities for our customers remain safe, clean drinking water, wastewater treatment, reliability, integrity and the environment.*
- *Customers asked us to maintain existing service levels, protect the environment, plan for climate variability and invest in infrastructure.*
- *Customers support our proposed price increase in order to maintain service levels and provide infrastructure for our growing region's future.*
- *Customers told us it was important that those experiencing payment difficulties were supported.*
- *Representing 20 out of 21 of our serviced towns, over 900 customers engaged with us through surveys, community visits, workshops, personal interviews and our Community Advisory Committee.*

### Background

The starting point for the PS2023 engagement program was the PS2020 engagement program, plus insights gained through our ongoing engagement with customers. A key objective was to provide a broad range of opportunities for customers to engage with us covering the widest cross-section of people across our large and small, diverse towns. We have utilised the Essential Services Commission's 10 principles for universal and inclusive engagement in our processes<sup>9</sup>.

Our PS2023 Community Engagement Strategy<sup>10</sup> aimed to make it as easy as possible for people with different needs to help influence and shape our decisions. For example, customers experiencing vulnerability were approached directly and with sensitivity. We spoke to support agencies who helped to inform how we would engage.

To ensure an independent voice in the conversations, we engaged three independent research companies.

Our Board, Executive Leadership Team and Price Submission Steering Committee were involved in the development of the engagement strategy. We had a 'Volunteer Army' of 15 staff members who gave their time to help engage with customers.

We applied the following principles when developing our Community Engagement Strategy:

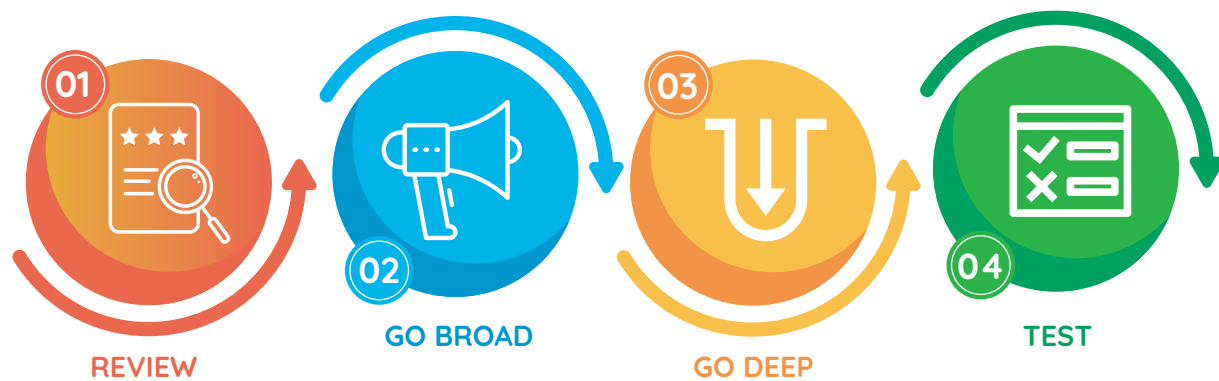
- *We give priority to matters that have a significant influence on the services we provide and prices we charge.*
- *We will be open and transparent with our customers.*
- *We will work with all our customers including Traditional Owners, customers who experience forms of vulnerability, community groups and local businesses.*
- *We will collaborate with customers and communities on strategy and planning, testing the feedback we receive and adapting where possible.*

Our engagement program was developed within the International Association for Public Participation (IAP2) framework and guided engagement with a range of customers and communities about what was important to them. The four-phase process includes: review, go broad, go deep and test, as shown in Figure 4.

<sup>9</sup> Customer Engagement Process and Outcomes – SGW, September 2022

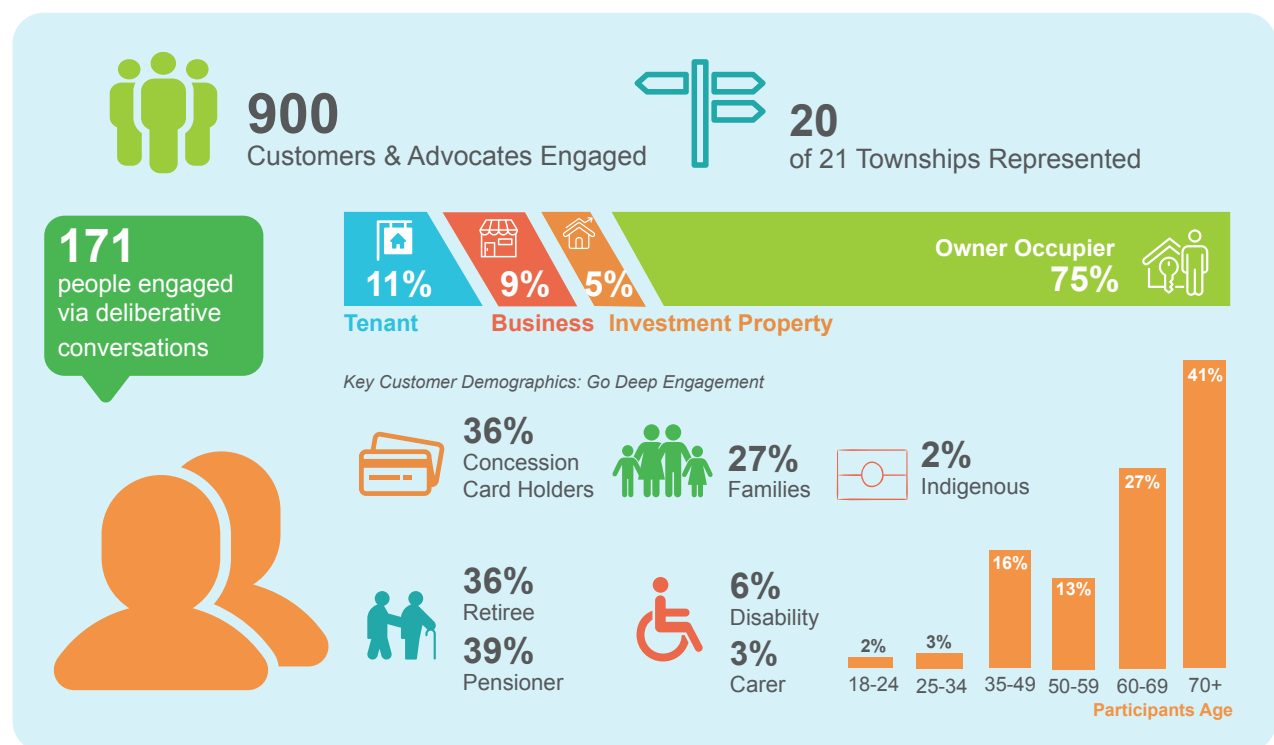
<sup>10</sup> Community Engagement Strategy SGW 2021

Figure 4: Engagement four-stage process



We used multiple channels and provided many opportunities for a wide demographic of communities and customers to shape the Price Submission, as demonstrated in Figure 5.

Figure 5: Summary of customers engaged for this submission



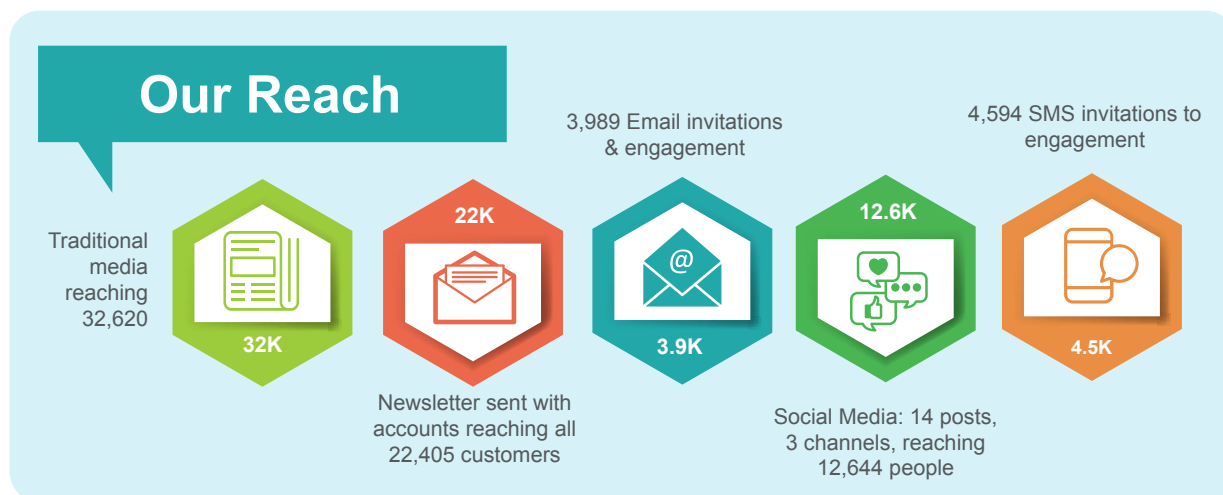
## Engagement processes

We engaged with over 900 customers and their advocates. We engaged 729 customers through surveys and have directly spoken to 171 customers through our deliberative workshops, targeted workshops, in-depth interviews and community visits.

Our program included open surveys, social media interactions, community workshops, formal committee meetings, face-to-face interviews, town visits and phone polling.

We completed a wide-reaching awareness program, as presented in Figure 6.

Figure 6: Summary statistics of engagement reach and channels



## Community Advisory Committee

A Community Advisory Committee (CAC) was established to provide advice on a wide range of topics including capital investment, water security, wastewater quality and re-use.

The roles of the Community Advisory Committee are to:

- provide direction and community leadership in the areas of strategy and planning
- provide strategic advice on customer and community priorities
- advocate on behalf of our communities and customers
- assist with planning and implementing key strategies.

## Go Broad process

We conducted three separate surveys over a 10-month period to explore customers views on a wide range of matters relating to services, sustainability and prices. This phase of the engagement process involved broad consultation targeted at the 'Inform/Consult' level of the IAP2 engagement scale.

We used different methods to extend the reach of our surveys to different audiences across the South Gippsland Water region. These included face-to-face town visits, telephone interviews, online interviews and via our volunteer army. Topics explored included:

- water and wastewater security and quality
- reliability of services, maintenance and renewal of assets, speed of addressing burst pipes and spills, infrastructure required to maintain services, communication in the event of faults and disruptions
- environmental issues including wastewater compliance, impacts of climate change and increased extreme weather events
- assistance and support for those experiencing vulnerability
- future sustainability of our business
- prices and price paths
- the Customer Outcomes we are accountable for
- Guaranteed Service Levels (GSLs)
- focus for our investment (CAPEX and OPEX) and why
- whether customers say we provide value-for-money.

The main areas of feedback from customers were:

- 93% of customers responding said it is important we maintain and renew community assets.
- 59% were happy to invest more in infrastructure to maintain current service standards even if it meant a modest increase to their bill.
- 46% of customers would like more investment in environmental projects even if it meant a modest increase to their bill.

### Go Deep processes

This stage built on insights gained during the Go Broad stage by having more targeted qualitative conversations.

We held a full-day online deliberative workshop<sup>11</sup> to explore Customer Outcomes, our GSLs, programs to deliver reliable services, capital investment and potential price paths.

Two evening workshops were held – one focused on testing the existing GSLs and establishing the new GSL program. The second tested customer outcomes, service levels, the revenue requirement and proposed price options.

The Community Advisory Committee met to discuss major capital options for our water and wastewater systems.

A summary, along with IAP2 engagement levels and key processes, is listed in Table 4.

Table 4: Summary of topic-based engagement events

Topic	IAP2	Community Advisory Committee	Deliberative Processes (Panel and workshops)	In-depth interviews
Water and wastewater services	Consult/Involve	✓	✓	✓
Guaranteed Service Levels	Consult/Involve	✓	✓	✓
Environmental Outcomes	Consult/Involve	✓	✓	
Capital investment, Regional growth	Consult/Involve	✓	✓	
Operational investment	Consult/Involve	✓	✓	
Efficiency, Gap, Prices/Tariffs/Price path	Consult/Involve	✓	✓	✓
Supporting vulnerable customers/ Small businesses	Involve/Collaborate	✓	✓	✓

11 Pricing Review Findings Report, Max Hardy Consulting, May 2022

## Targeted programs

### ***In-depth interviews – Independent study of customer vulnerability impacts and supports***

South Gippsland Water built on the rich insights from our 2020 Price Submission and ran an independent study with customers experiencing vulnerability. We wanted to understand their views and needs about finding the balance between price, service and the future (including how that is affected by the COVID-19 pandemic).

This study started with residential customers and, from what emerged during discussions, expanded to include small businesses and business advocates. The study included 31 residential customers, 32 support agencies, six businesses and eight business advocate interviews. In total, we conducted 77 separate in-depth interviews (30 minutes to one hour, in-person, online and via telephone).

### ***First Nations People***

South Gippsland Water operates on Bunurong and Gunaikurnai Country. We have an established relationship with the Gunaikurnai through the Gippsland Environmental Alliance of which the Gunaikurnai Land and Water Aboriginal Corporation (GLaWAC) is a member.

We have spent time with GLaWAC working on their whole-of-country, self-determination plan as well as our Memorandum of Understanding, which seeks social justice through economic development opportunities.

In our area, the Bunurong Land Council Aboriginal Corporation (BLCAC) principally engage with water authorities through the Bass Coast Reconciliation Network. BLCAC are aware of our planning process and commitment to working together.

During the next five years, we will develop a Reconciliation Action Plan with both Gunaikurnai and Bunurong peoples.

## Testing

The final stage in developing PS2023 was to test the content of our five-year plan to ensure our investment was consistent with customer priority areas. We developed fact sheets about the programs, proposals and investments, published them and invited feedback on our website, and promoted them via print and social media.

We met with the Community Advisory Committee (CAC) to 'close the loop' on all of the topic areas we had explored during the engagement phase, including programs and investments listed in the Price Submission. We discussed what impact these programs and investments would have on price and how they relate to what customers asked for.

***"You have gone far enough (with regards to strengthening targets) and it is a challenge for SGW to work hard at achieving",  
Community Advisory Committee member, 16 August 2022***

The CAC was supportive of our investment proposals and felt they reflected our Customer Outcomes.

- The CAC gave an average rating of 9 out of 10 in support of our proposed investments.
- When asked about our plan to maintain services at current levels with a moderate price rise over five years, they were supportive on average, rating our plan a 9 out of 10.
- When asked if our plan achieved the balance between price, services and being sustainable into the future, they once again rated the plan as a 9 out of 10 in achieving the balance.

***"Getting the balance is difficult but very important for community affordability and matching with desired outcomes. Some compromise between ideology and affordability. I believe this goes a long way to achieving this."  
Community Advisory Committee member, 16 August 2022***

## Engagement - What we heard

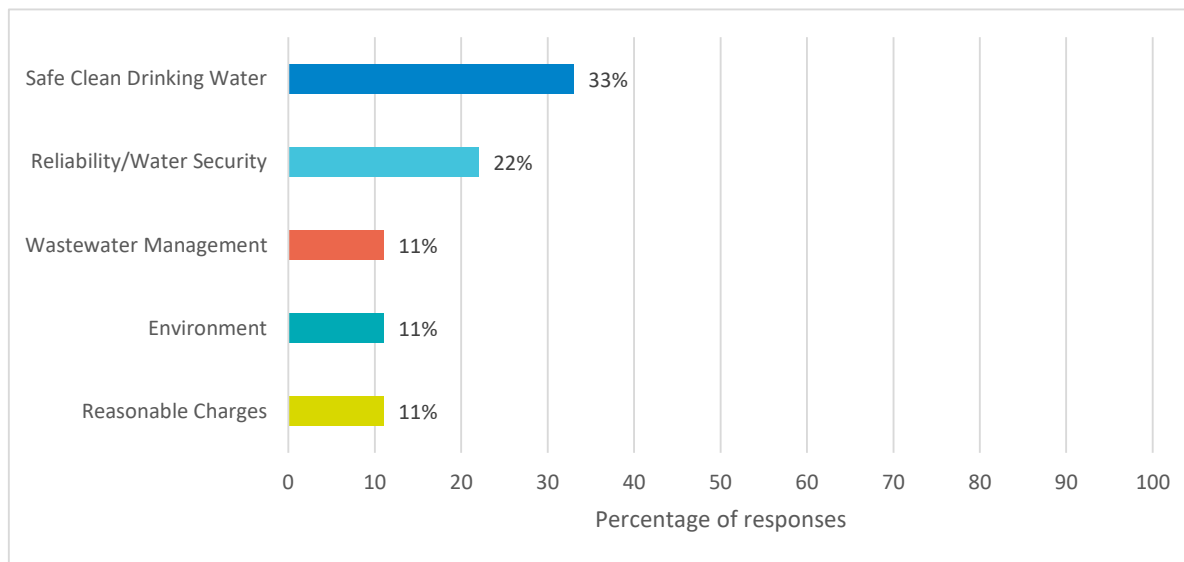
We built on our previous understanding and through our Community Survey confirmed customers value the themes in figure 7.



### Safe clean water

Safe, clean drinking water remains a key priority for our customers.

Figure 7: PS2023 Community Survey priorities (number of open-ended responses, coded by theme).



**Q. Open-ended responses coded by theme to the question, "What is a priority for you and your community when it comes to the supply of water, or management of our wastewater?"**



### Reliability

Reliability, including water security, remains a priority. Customers expect us to maintain and renew assets and improve communication with them when things go wrong.

Communication is important to our customers who have indicated their preference to be notified via SMS of any issues.

**"Our landscape has changed. The pressure on our networks is growing. We still need to avoid (wastewater) spills." Deliberative panel member, 9 April 2022.**



### Wastewater management

Wastewater treatment and re-use are important to our customers. Customers support more investment in wastewater management. Ongoing compliance and keeping pace with regional growth are areas customers continue to value.

Interest in wastewater re-use was explored in depth and was a key area of interest in our longer-term Urban Water Strategy consultation. We further tested this and found there is a customer desire to do more.

**"We have a big challenge ahead with wastewater and growth in towns like Wonthaggi, and we have to address that." Community Advisory Committee member, 16 March 2022**





### **Environment**

Interest in environmental themes and topics remains strong. We explored the options of investment in programs to protect the environment, including our carbon neutral strategy, wastewater treatment and re-use.

***"I think we should do more for the environment and look at more sustainable, alternative solutions to sewerage and potentially re-use wastewater." Deliberative Panel member, 9 April 2022***



### **Customers experiencing vulnerability**

Customers continue to ask for South Gippsland Water to deliver on our social obligations and support customers experiencing vulnerability. This is consistent across our engagement programs.

We built on the 2019 Vulnerability Study<sup>12</sup> to further explore how we can assist customers (and their support services), who are experiencing payment difficulties and other circumstances presenting barriers to accessing our services<sup>13</sup>.

The Community Advisory Committee supported increased investment in this area. The Deliberative Panel was clear any price increase had to include assistance to customers experiencing vulnerability.



### **Small businesses**

COVID-19 had a significant impact on some of our commercial and small business customers. Small businesses play a vital role in our towns and communities, helping our region to thrive.

We recognised during the 'Go Broad' stage of engagement that our wider customer base supported us doing more to support small businesses. In response, we completed a dedicated small business study to test customer support program options<sup>14</sup>.

***"Definitely (support) businesses, they are no different.  
A lot of people think business people are rich – not the case."  
Traders Association representative, June 2022***

<sup>12</sup> Needs and Expectations of Vulnerable and Disadvantaged Customers, Bartley Consulting, 2019

<sup>13</sup> Understanding customers experiencing vulnerability, Phase 1, 2 and Small Business, Bartley Consulting, 2022

<sup>14</sup> Understanding the needs of small business experiencing vulnerability, Bartley Consulting, July 2022



### ***Finding the balance***

Finding the balance has been a consistent theme and we continue to test our approach with customers. Customers do not want their services to deteriorate. Customers supported a moderate price rise over five years to maintain service levels.

Customers emphasised the importance of programs for people experiencing vulnerability, including small businesses, particularly when experiencing payment difficulties.

***“Keep the long-term in view because in the short-term we see what debt does to organisations – you have to pay for it, so don’t focus on cutting prices today at the risk of service.”***  
***Customer, lived experience with vulnerability, May 2022***



### ***Price path***

We tested our proposed price paths with customers. We provided a range of options on how the overall increase could be applied. The two key options were:

Options	2023–24 %	2024–25 %	2025–26 %	2026–27 %	2027–28 %
Option 1	2	2	3	3	3
Option 2	3	3	3	2	2

Our deliberative workshop preferred a price path of the 3% up front to help South Gippsland Water work towards a reliable and sustainable future for our growing region. Customers experiencing vulnerability and their advocates preferred 2% up front with a gradual increase.

***“People are being hit now with a lot of price rises.... so, the problem is paying now. Hence, the recommendation to keep the increases now low and hope that things (in terms of prices) get better in the longer term.”***  
***Customer support worker, July 2022***

In the interests of broader customer affordability and considering the preferences of customers who may be struggling now, we are proposing to continue our gradual approach to price increases. We propose increases of 2% in 2023–24 and 2024–25 and 3% for the remaining three years of PS2023, which is consistent with previous submissions.

## 5 PREMO - Outcomes

### At a glance...

- *Key priorities for our customers remain safe, clean drinking water, wastewater management, reliability, integrity and the environment.*
- *Customers indicated the Customer Outcomes, measures and targets remain appropriate.*
- *We have strengthened Customer Outcome measures and targets in wastewater, environment and integrity for greater transparency and accountability.*
- *Expenditure is prioritised to reflect customer priorities.*
- *Our Service Standards have remained unchanged.*
- *Learning from our experience, we propose a new water quality Guaranteed Service Level.*

### Background

Our agreed levels of service and performance are established and tracked through a number of programs. Three key areas are described below and include:

- *Customer Outcomes – developed with customers to provide an understanding of the areas of our services they value most. Customer Outcomes, measures and targets provide a structure for our programs and expenditure.*
- *Service Standards – agreed standards relating to reliability and faults.*
- *Guaranteed Service Levels – our commitment to deliver a specified service level to customers.*

### 5.1 Customer Outcomes

Our five Customer Outcomes reflect the areas customers value most. Developed in 2018, the Outcomes, measures and targets have been reviewed and tested with customers, as outlined in Chapter 4, Engagement.

Customers said the Outcomes and alignment to measures and targets remain relevant and appropriate.

We further reviewed our performance and customer experience in the 2018–2023 period (see Chapter 2 Performance), and what we heard through our engagement process. As a result, we have strengthened and revised our measures and targets for Water, Wastewater, Integrity and the Environment.

We have prioritised activities and programs in PS2023 to deliver the five Customer Outcomes. Expenditure to deliver on our commitments has been included in our forecasts and the pricing model. Project prioritisation has placed a level of performance risk to South Gippsland Water.

## Performance monitoring and reporting






We have an established performance monitoring program in place and propose to continue our reporting process by:

- *development of our quarterly scorecard detailing the performance of Customer Outcomes measure and targets*
- *review by the Executive Leadership Team and the Engagement and Planning Sub-Committee of the Board*
- *public distribution via our website and social media platforms.*

Our commitment to address any under performance against Customer Outcomes will continue over the period.

A summary of the proposed amendments to Customer Outcomes, measures and targets is provided in the table below.

Table 5: Proposed amendments to Customer Outcomes, measures and targets

	Existing 2020 Outcomes	Proposed Price Submission 2023 Outcomes
	<b>Water</b> Provide safe, clean drinking water	Increased measure for customers who prefer to drink tap water from 88% to 91%.
	<b>Reliability</b> We will plan for the future, be reliable and minimise unplanned interruptions to services	One activity was removed  Water security outlooks for water supply systems are developed and published in November each year.
	<b>Wastewater</b> Provide a safe wastewater service that contributes to the liveability of our communities	Programs, measures and targets are strengthened as a result of customer experience to allow for increased transparency and accountability. <ul style="list-style-type: none"> <li>• Expanded EPA measure from enforcement actions to EPA compliance activity.</li> <li>• Two new measures – the number of incidents reported to the EPA and the number of incidents that require EPA notification.</li> </ul>
	<b>Environment</b> Be environmentally sustainable and adapt to a future impacted by climate variability	The Environment measures and targets were reviewed and updated to reflect our commitment to achieve net zero emissions by 2035 and environmental obligations.
	<b>Integrity</b> We will act with honesty, respect and strive to balance affordability, value-for-money and fairness	Programs, measures and targets are strengthened to include support for a wider cohort of customers. <ul style="list-style-type: none"> <li>• New measure 2025–26 for customers who have accessed our support programs.</li> <li>• Customer Satisfaction target increased from 80% to 85%.</li> </ul>

### Customer Outcomes in detail

An overview of the Customer Outcomes, measures and targets, as well as the programs and projects associated with each Outcome is provided below.



#### Outcome 1: Reliability

We will plan for the future, be reliable and minimise unplanned interruptions to services

Measures and targets:

Measures of success	2023–24	2024–25	2025–26	2026–27	2027–28
• Average response time to sewer spills and blockages	≤30 minutes	≤30 minutes	≤30 minutes	≤30 minutes	≤30 minutes
• Average response time to water bursts and leaks (Priority 1)	≤30 minutes	≤30 minutes	≤30 minutes	≤30 minutes	≤30 minutes
• Average duration of unplanned water supply interruptions (per customer interruption)	110 minutes	110 minutes	110 minutes	110 minutes	110 minutes

#### Activities to deliver Outcome

- Continue our infrastructure renewals program for wastewater and water reticulation systems
- Implement programs for water security
- Continue to build maturity in our ICT SCADA<sup>15</sup> program
- Review performance and adapt as required to continue to provide reliable services

#### Key projects

Renewals:

- Sewer reticulation pipes (\$4.1 M)
- Water reticulation pipes (\$6.0 M)
- Wonthaggi water main expansion (\$3.4 M)
- ICT communications, SCADA (\$2.9 M)

Water security:

Lance Creek Bulk Entitlement (~\$4.3 M Opex and Capex)

Total for PS2023

\$20.7 M



#### Outcome 2: Water

Provide safe, clean drinking water

Measures and targets:

Measures of success	2023–24	2024–25	2025–26	2026–27	2027–28
• Number of non-compliances with the <i>Safe Drinking Water Regulations</i>	0	0	0	0	0
• Customers who prefer to drink our tap water, including filtered (identified via the Customer Satisfaction Survey)	≥91%	≥91%	≥91%	≥91%	≥91%

#### Activities to deliver Outcome

- Continue to renew and update our water delivery systems across the region
- Invest to renew aging water treatment plants with a focus on water taste and odour
- Invest in initiatives to provide long-term water security
- Continue scheduled maintenance programs for our pipes to prevent discoloured water

#### Key projects

- Replacing pressure filters at Toora and Foster Water Treatment Plants (\$7.2 M)
- Upgrade Lance Creek distribution system (\$8.7 M)
- Upgrade Poowong, Loch, Nyora water supply (\$5.9 M)
- Leongatha water supply security program (\$4.4 M)

Total for PS2023

\$26.2 M



### Outcome 3: Wastewater

Provide a safe wastewater service that contributes to the liveability of our communities

Measures and targets:

Measures of success	2023–24	2024–25	2025–26	2026–27	2027–28
• EPA licence compliance	100%	100%	100%	100%	100%
• Number of reported environmental incidents	≤75	≤75	≤75	≤75	≤75
• Number of incidents requiring EPA notification	≤10	≤10	≤10	≤10	≤10

#### Activities to deliver Outcome

- Cater for growth areas and continue our sewer systems upgrade and renewal program
- Undertake preventative maintenance programs to reduce wastewater blockages and spills to ensure compliance
- Upgrade wastewater treatment plants and assets

#### Key projects

Sewer system expansions for:

- Wonthaggi (\$7.0 M)
- Inverloch (\$3.2 M)

Wastewater treatment upgrades

- Foster (\$5.8 M)
- Leongatha (\$4.5 M)
- Inverloch (\$4.3 M)

Total for PS2023

\$24.8 M



### Outcome 4: Environment

Be environmentally sustainable and adapt to a future impacted by climate variability

Measures and targets:

Measures of success	2023–24	2024–25	2025–26	2026–27	2027–28
• Annual greenhouse gas emissions (Tonnes CO <sub>2</sub> -e)	7,500	6,500	3,800	3,700	3,600
• Annual reuse of biosolids produced	55%	70%	85%	100%	100%

#### Activities to deliver Outcome

- Implement our Carbon Neutrality Roadmap
- Work with industry partners on emission reduction and environment programs
- Promote water efficiency across the region
- Actively participate in water re-use programs
- Assist our customers, to save water through our Community Rebate Scheme

#### Key projects

- Upgrade the Foster Wastewater Treatment Plant to allow for re-use (\$5.8 M)
- Continue Community Rebate program (SGW cost)
- Continue our Greenhouse Gas Emissions Strategy to reduce our annual consumption (SGW cost)
- Implement environmental programs identified through our Integrated Water Management (IWM) and Zero Emissions Water (ZEW) partnerships (SGW cost)
- Implement programs identified in our biosolids re-use strategy

Total for PS2023

\$5.8 M



### Outcome 5: Integrity

We will act with honesty, respect and strive to balance affordability, value-for-money and fairness

Measures and targets:

Measures of success	2023–24	2024–25	2025–26	2026–27	2027–28
• High customer satisfaction levels maintained*	≥85%	≥85%	≥85%	≥85%	≥85%
• Customers rate our services as 'value-for-money*'. • Customers in the Customer Support Program report they agree or strongly agree the program has helped them with payment difficulties**	≥73%	≥73%	≥73%	≥73%	≥73%
	In development	In development	70%	70%	70%

\* Annual Customer Satisfaction Survey

\*\*Customers surveyed – We will commence application of this measure and targets in 2025–26 to allow for development and implementation of the program.

Activities to deliver Outcome	Key projects
<ul style="list-style-type: none"> <li>Extend our support policy and programs to support residential and non-residential customers</li> <li>Increased proactive engagement with community support agencies</li> <li>Introduction of a new Water Quality Guaranteed Service Level</li> <li>Introduction of a new SMS communication process</li> </ul>	<ul style="list-style-type: none"> <li>Implement a targeted co-payment program designed to re-engage customers with outstanding payments to SGW and assist in reducing their debt</li> <li>Implement customer support policy changes extending supports to non-residential customers</li> <li>Introduce a Community Resilience Grant in response to any future Boil Water Advisories being enacted</li> </ul>
<b>Total for PS2023</b>	<b>\$0 – costs to be absorbed by South Gippsland Water</b>

## 5.2 Service Standards

Our Customer Outcomes, measures and targets are closely aligned to Service Standards (see Table 6). Overall, customers are satisfied with the levels of service delivered. We are proposing not to change our Service Standards for the PS2023 period.

We propose to adapt our standards as required when the Essential Services Commission Customer Service Code review process comes into effect in 2023.

Table 6: SGW Customer Service Standards 2023–24 to 2027–28

Service Standard	2023–24	2024–25	2025–26	2026–27	2027–28
<b>Water</b>					
Number of customers experiencing more than 5 unplanned water supply interruptions in the year (number)	0	0	0	0	0
Average time (minutes) taken to attend bursts and leaks (Priority 1)	30	30	30	30	30
Average time (minutes) taken to attend bursts and leaks (Priority 2)	35	35	35	35	35
Average time (minutes) taken to attend bursts and leaks (Priority 3)	500	500	500	500	500
Average duration (minutes) of unplanned water supply interruptions	110	110	110	110	110
Average duration (minutes) of planned water supply interruptions	240	240	240	240	240
<b>Wastewater</b>					
Customers receiving more than 3 sewer blockages in the year (number)	0	0	0	0	0
Average time (minutes) to attend sewer spills and blockages	30	30	30	30	30
Average time (minutes) to rectify a sewer blockage	120	120	120	120	120
Spills contained within 5 hours (per cent)	95	95	95	95	95

### 5.3 Guaranteed Service Levels

South Gippsland Water currently has three Guaranteed Service Levels (GSLs):

1. *Unplanned sewer interruptions not rectified within 5 hours*
2. *Sewage spill within a customer's property, and*
3. *Payment difficulty information disclosure.*

We reviewed the current GSL scheme with our Community Advisory Committee and in a focused workshop<sup>16</sup>.

Customers supported our proposal to change one word in GSL number two. Currently, it reads 'sewage spill in a customer's *property*'. The change will be to 'sewage spill within a customer's *house*', which provides a clearer definition of responsibilities.

Following a Boil Water Advisory event in March 2022, we found a gap in our existing guaranteed service levels for water quality. We raised this as part of the engagement process and customers agreed:

- *a fourth GSL should be added to reflect water quality incidents, and*
- *support for the new GSL will be in the form of a community grant, targeting specific projects.*

Table 7: Proposed Guaranteed Service Levels

Service level obligation	Details	Level of service	Rebate/payment for breach per customer (\$)
1. Unplanned sewer interruptions not rectified within 5 hours	South Gippsland Water will rebate the customer an amount when it fails to restore sewer supply within 5 hours of notification to a customer's property.	All	Rebate of \$100
2. Sewage spill within a customer's house	South Gippsland Water will pay the customer an amount if it causes a sewage spill within a customer's house. It will also clean up the house and provide alternative accommodation as required.	All	Payment of \$1,000
3. Water quality community grant	South Gippsland Water will facilitate a once-off grant process to a water supply community impacted by a major water quality event (boil water advice). *		Once-off community grant of \$10,000
4. Payment difficulty information disclosure	South Gippsland Water will rebate the customer an amount where it restricts the water supply of, or takes legal action against, a residential customer prior to taking reasonable endeavours to contact the customer and provide information about help that is available if the customer is experiencing difficulties paying.	All	Rebate of \$300

\* Water Quality community grant to be provided in accordance with the GSL key principles and administration processes agreed with customers.



## 6 PREMO - Management

The Management element of our Price Submission includes our demand and growth analysis, operational expenditure analysis and our proposed capital program.

Our customers confirmed they value safe, clean drinking water, wastewater treatment, water reliability, integrity and the environment.

They have requested we maintain and renew community assets, maintain current service standards, and invest in environmental projects, even if it means a modest increase to their bill.

With this in mind, our 2023 Price Submission and long-term plan secures the future of our services, our region, our environment and the resilience of our communities and businesses.

### 6.1 Demand

#### At a glance...

- *We have completed a thorough analysis of our region's growth and demand forecasts.*
- *We have considered our changing climate and the future uncertainty of COVID-19.*
- *We are proposing 1.8% water and wastewater residential connection growth per annum.*
- *Residential water consumption is forecast to be 121 kL, an increase of 1 kL p.a. from PS2020.*
- *A conservative longer-term approach has been adopted for non-residential customer water consumption.*

#### Background

To calculate customer prices, we factor in demand assumptions in conjunction with growth assumptions. We have completed a thorough analysis<sup>17</sup> of demand for our water and wastewater services along with growth across the region to ensure our assumptions are robust.

#### Method

Our approach, in the calculations to assess both residential and non-residential customers, has included both five-year and 10-year forecasts via a range of sources:

- *third party information such as Victoria in Future 2021 (VIF)<sup>18</sup>, our local shire councils and developers in our demand and growth analysis*
- *data from our billing system, used to track movement in water and wastewater connections, and consumption across the various customer categories*
- *major customers, non-residential customers and miscellaneous revenue, which have been subject to segment specific analysis.*

COVID-19 has impacted on assessment and consumption during part of 2019–20, and during the 2020–21 and 2021–22 financial years. There has been an increase in residential water assessment growth in 2020–21 and 2021–22 compared to prior years. Non-residential assessments growth has been stagnant during this period.

<sup>17</sup> Demand Analysis Report, 2022

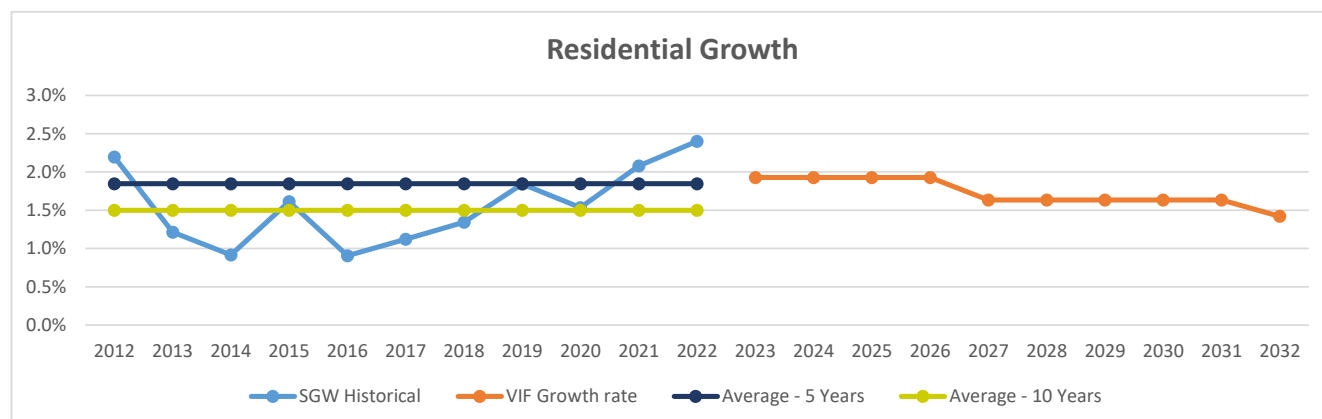
<sup>18</sup> Victoria in Future, 2021

## Growth

### Residential property connections – water and wastewater

The residential growth analysis for PS2023 is underpinned by a 10-year analysis of VIF data and property connections. We have applied VIF growth rates for each year, i.e. 1.9% between 2023–24 to 2025–26 and 1.6% for 2026–27 to 2027–28 for both residential water and wastewater customers. Figure 8 shows this trend assessment.

Figure 8: Trend assessment residential developed properties 2012 to 2032



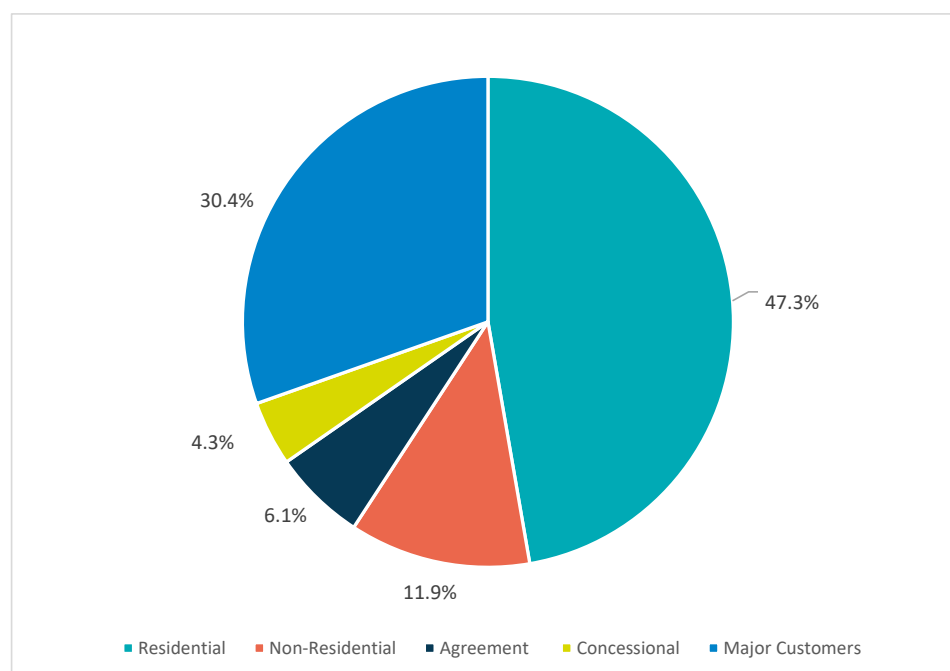
### Non-residential property connections

Non-residential property connections across the South Gippsland region have fluctuated over recent years. We have used the pre-COVID-19 seven-year average (2013 to 2019) of 0.53% per annum for water and 0.37% for wastewater, as these represent normal observed regional growth. These are a slight decrease from the 0.75% adopted in PS2020 and have little impact on revenue.

## Consumption

Water consumption analysis has been completed on five key categories: residential, non-residential, agreement, concessional and major customers.

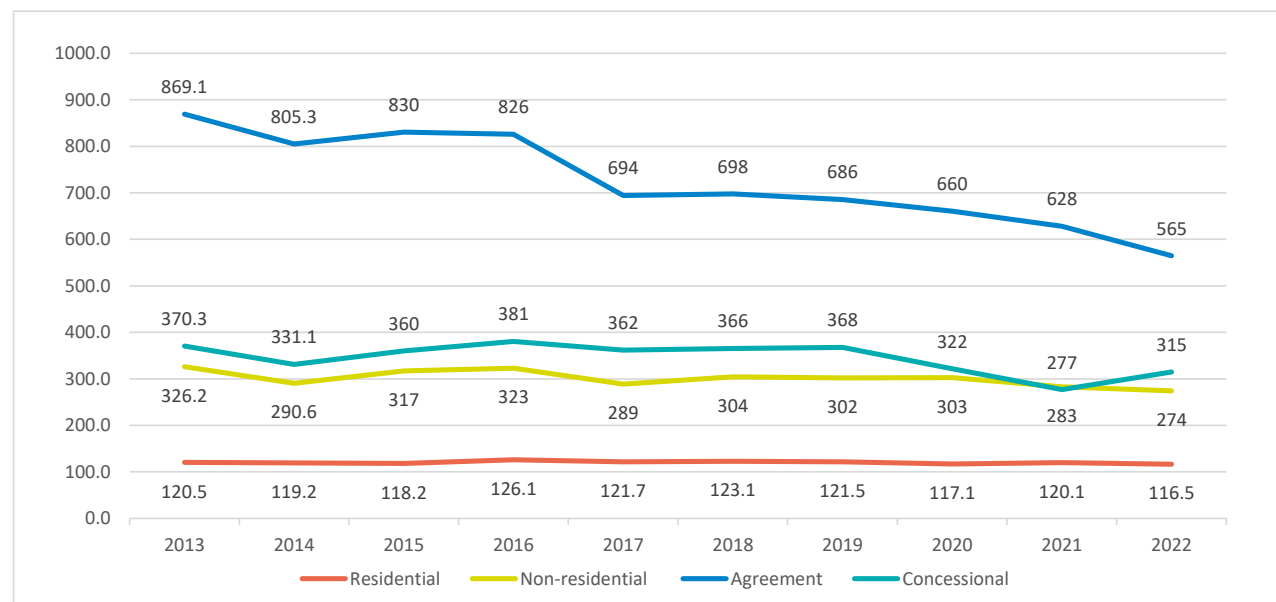
Figure 9: Proportion of total consumption by category 2023–24 to 2027–28



### Residential consumption (47.3% 2023–24 to 2027–28)

The average annual residential water consumption proposed for PS2023 is 121 kL/pa. Consumption has fluctuated slightly over recent years, dropping to a low of 116 kL/pa in 2021–22 (see Figure 10). Looking at the longer-term trends, we forecast residential water consumption will return to the higher rate of 121 kL/pa.

Figure 10: Average water consumption kL (excluding major customers) 2013 to 2022



### Non-residential consumption (11.9% 2023–24 to 2027–28)

Average annual water consumption for non-residential properties has been reducing since 2016. We forecast a consumption rate of 293 kL for the PS2023 period. This rate reflects the declining usage and is above the lower consumption of the past COVID-19 years.

### Water by Agreement (6.1% 2023–24 to 2027–28)

Water by Agreement customers have been forecast using a three-year average of 617kL. This is on the basis the three-year average is more conservative given the long-term trend of above 800kL prior to 2017.

### Concessional (4.3% 2023–24 to 2027–28)

Concessional customer forecast is at 320 kL, which represents a four-year average from 2019–2022, and lower consumption than the historical consumption of 350 kL 2015 to 2019.

### Major customer consumption (30.4% 2023–24 to 2027–28)

Major customers' (customers with demand above 250 kL) water usage is approximately 30% of South Gippsland Water's water supply. Saputo, located in Leongatha, and Burra Foods, in Korumburra, are the two major users as shown in Figure 11.

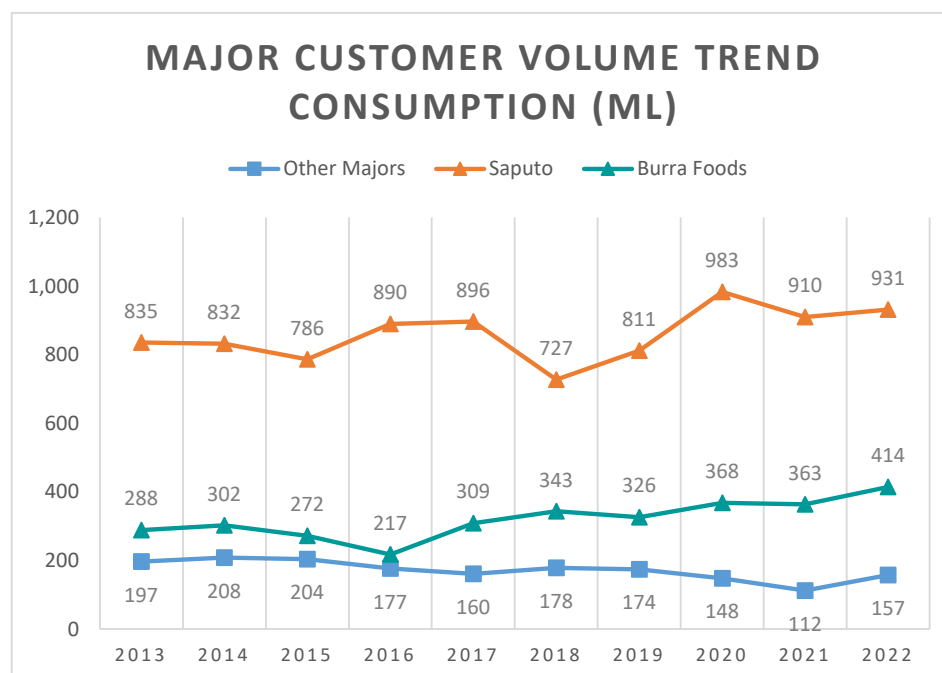
The dairy industry is a major employer for the South Gippsland region and has shown resilience throughout the COVID-19 period. Both Saputo and Burra Foods have increased their water use over recent years. We have developed demand forecasts for the period 2023 to 2028 using recent historical trends and considering forecast predictions from these two major customers.

Saputo's demand has fluctuated over the last five years (see Figure 11). Demand has been as high as 980 ML in 2019–20 and as low as 727 ML in 2018–19 (a 19% reduction). Saputo's business has been impacted by COVID-19 and the macro-economic environment influencing milk prices. However, their water consumption has increased since 2018. Indications from Saputo are that this demand will grow primarily due to a new processing method with higher water consumption. We forecast a moderate 970 ML for the 2023–28 price period. This is at the top end of their long-term historical consumption and is reflective of the three-year trend. It is below Saputo's forecast demand of 1,079 ML.

Burra foods is forecasting a demand of 400 ML/p.a. over the period. They estimate their future demand for the next 10 years to be stable.

Demand from other major customers has dropped away over the last six years, primarily due to the closure of a major abattoir outside Wonthaggi. This demand is projected at 159 ML for the price period.

Figure 11: Major customer water consumption



## Wastewater

Non-residential wastewater is categorised into three segments: Major Trade Waste, Cistern Charges, and Minor Trade Waste Charges.

### Major Trade Waste

South Gippsland Water has three major Trade Waste Agreements with customers whose discharges have the potential to create a significant impact on wastewater collection, treatment, and/or disposal. The forecast for these customers for the 2023–28 Price Submission period is to remain consistent with current agreements.

As a key element in the Venus Bay Outfall investment, South Gippsland Water is negotiating with Burra Foods and Saputo for future Trade Waste Agreements (which expire at the end of 2023. Negotiations are ongoing and binding agreements are yet to be finalised). Both customers have indicated strong interest in using an upgraded Venus Bay Outfall. It is envisaged the Trade Waste Agreements would take effect in January 2024.

### Cistern Charges

Cistern volume charges apply to non-trade waste customers and bear a direct relationship to water consumption. In the seven years prior to COVID-19, the trend was 1.9% yearly volumetric growth. There was a drop of -0.1% on average between 2018 and 2022. We have assumed a conservative growth rate of 0.75% for this price period, to recognise there will be some recovery from the COVID-19 affected years.

### Minor Trade Waste Charges

Pre-COVID-19 minor trade waste volumes growth has been volatile with some years at high growth of 20%, and others as low as 2%. As demand dropped 8.5% in 2021–22, we have proposed a conservative growth rate of 3% for future years, in recognition of some recovery from the COVID-19 affected period.

## Miscellaneous income

Miscellaneous income is approximately 1.0% of total income. Material sources include standpipe water sales, inspection fees, information certificates and water tapping fees. Individually, all are less than 0.5% of total income. Demand estimates are based on historical analysis. They have not been significantly volatile and are therefore forecast to remain stable for the next regulatory period.

## 6.2 Operating expenditure

### At a glance...

- Our operating expenditure is prioritised to efficiently deliver safe, clean water and wastewater whilst maintaining current service standards.
- We are proposing a further 1.4% efficiency improvement from base year operating expenditure.
- We propose to minimise variations and will absorb additional expenditure.
- Our submission represents our best offer.
- All financial information provided in 2022-23 dollars (unless indicated)

### Base year operating costs

Actual base year (2021–22) controllable operating expenditure incurred was \$22.15 M, noting that (\$0.16) M related to non-recurring items, which do not have a pricing impact for South Gippsland Water customers. These items are described further in Table 8 and have been removed from the base year costs.

Table 8: Operating expenditure items for adjustment, base year 2021–22

Item	Description	\$M
Repairs and maintenance	Contractors' costs to backfill staff due to COVID-19 and storm event emergency	0.58
Professional consultancy	Price Submission 2023 development and an organisational structure review	0.40
Utilities	Relating to delay in completion of solar plants and one-off ZEW initial deposit	0.19
Communications and technology	ICT additional security and services to enable work from home due to COVID-19	0.13
COVID-19 direct costs	Relating to safety and cleaning	0.12
Compliance	Victorian Government Procurement Board (VGPB) initiative and higher internal audit fees	0.03
Decommissioning Provision Reduction	The base year costs included a reduction in the accounting decommissioning provision and non-cash reduction in Opex. This removes this accounting impact. The negative expense is being removed with this adjustment.	(1.60)
<b>Total adjustment</b>		<b>(0.16)</b>

Excluding these items, base year operating expenditure for 2021–22 is \$22.44 M. We undertook a detailed assessment of the base year's costs to identify any adjustments required for PS2023. We propose to minimise variations and will absorb additional expenditure. Our proposed base year operating costs of \$22.44 M is a \$1.7 M increase from the PS2020 2021–22 year (in 2022-23 \$), primarily due to staffing and technology capability uplift.

Our 2023 Price Submission proposes to adjust the base year to reflect our higher longer-term expenditure, specifically for chemical expenditure. Chemical expenditure for the Lance Creek Water Supply is dependent on raw water quality, algal blooms, and the extent of use of our Melbourne Supply System allocation. Ongoing blending of water from the Melbourne Supply System with the Lance Creek water source resulted in reduced chemical costs for 2021–22, which does not represent a normal year.

\$M	2022–23
Controllable operating costs – reportable	22.15
Adjustments from base year	0.16
New expenditure to add to base year - chemical costs	0.13
<b>Proposed base year operating costs</b>	<b>22.44</b>

## Efficiency

The Water Services Association of Australia (WSAA) 2020 benchmarking provides a quartile ranking compared to other water corporation participants in various categories of spending in the table below. A 1st quartile result means a ranking in the top 25% of benchmarking participants, and a 4th quartile means a ranking in the bottom 25% in terms of cost.

Table 9: Top 10 controllable operating cost categories – WSAA benchmarking results.

Category	Normaliser	Quartile
Water treatment costs	ML treated	4th
Wastewater treatment costs	ML treated	3rd
Information technology	FTE	1st
Wastewater network costs	Length of mains	2nd
Strategy and regulation	FTE	4th
Corporate governance	FTE	2nd
Water network costs	Length of mains	1st
Asset management	No. of connections	2nd
Fleet and property	FTE	4th
Human resources including OHS	FTE	4th

**Water treatment costs** comprise of maintenance, operation and chemical costs as the key drivers. Analysis shows the key contributor to performance is chemical costs required to treat raw water from our open rural catchment areas. The majority of our plants are on, or below, the average line compared to other benchmarked plants when chemicals are excluded.

**Wastewater treatment operating costs** are, overall, close to the industry average. We primarily operate lagoon-based wastewater systems, so costs per total volume of wastewater treated are relatively efficient. Our two mechanical treatment plants at Leongatha and Korumburra are impacted by maintenance costs (3rd quartile) and operate above the trend line impacting our overall result.

**Strategy and regulation** Rising regulatory and compliance obligations are driving the 4th quartile result primarily due to our economies of scale. Good governance is key to our Integrity Outcome. This is considered a critical success factor and area of importance for us.

**Corporate governance** is in the 3rd quartile as a proportion of operating costs; however, it is in the 2nd quartile on the basis of FTE when compared to like-sized participants, which reflects a lack of economies of scale.

**Fleet costs** continue to be an area of review and improvement and remain in the 4th quartile. We recognise there is an opportunity to reduce fleet costs and have a program to rationalise our fleet. This was postponed at the onset of COVID-19 (and the introduction of isolation requirements and remote working) in March 2020.

### Human resources

**OHS** The safety and wellbeing of our staff and communities has been a focused investment area for South Gippsland Water. We have had an improvement in safety culture. We will continue our OHS program as an area of critical importance for a safe and supportive work environment.

**Change management** Our culture and leadership capability was identified as a strategic risk, and has been a major investment area for South Gippsland Water. Our leadership program is currently in its fourth year, and we will continue to develop our internal capabilities to address this risk.

### Sustainable Strategic Direction Review

In partnership with DELWP, a *Sustainable Strategic Direction Review*<sup>19</sup> was conducted by KPMG in August 2019. This was an independent review of our operating costs and focussed on high expenditure categories, including water and wastewater treatment and network maintenance.

The review confirmed that South Gippsland Water is benchmarked lower in cost than peers in water and wastewater networks, and most corporate services areas. There are particular challenges to reduce costs in other areas such as operations and maintenance. These costs are driven by the fact that we service multiple small and unconnected water and wastewater systems, the size of our geographical service region, and asset conditions.

### Operating efficiencies

In addition to already being an efficient business, we are proposing an efficiency improvement target of 1.4% for operational expenditure for PS2023.

We have several efficiency programs, either in delivery already or planned, that we believe will deliver our efficiency improvement target. The key programs are:

**Operating Model Review** to improve the structure of the organisation for more efficient practices, identifying process efficiencies, and leveraging technology.

**Intelligent Metering Systems** will reduce leakage, increase supply resilience, and enable cost efficiencies.

**Digital enablement** to simplify the business and improve efficiencies with technology.

**Fleet Strategy** will continue to examine opportunities to reduce costs through consolidating and standardising the fleet.

**Strategic Asset Management Plan (SAMP)** to reduce costs, risk and improved performance from assets.

**Customer Experience Strategy** to improve self-service and reduce transactional costs.

### Efficiency

We have assessed operating cost efficiencies. Our proposed efficiency improvement rate is 1.4% per annum. Cost efficiencies will be achieved with options outlined above. Table 10 below indicates net opex growth applied to the baseline controllable operating expenditure each year.

Table 10: Net Opex growth calculation 2022–23 to 2027–28

	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
Adjusted baseline controllable operating expenditure (forecast)	22.60	22.66	22.73	22.80	22.81	22.82
Customer growth forecast (% per annum)	1.7%	1.7%	1.7%	1.5%	1.5%	1.5%
Cost efficiency improvement (% per annum)	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Net opex growth (% per annum)	0.3%	0.3%	0.3%	0.1%	0.1%	0.1%
Opex growth \$M (per annum)	0.07	0.07	0.07	0.01	0.01	0.01

## Proposed operating expenditure by major cost category: cost assumptions

### Labour

Labour costs (see Table 11) comprise 51% of our total operating expenditure. In the 2023–28 price period, South Gippsland Water's Enterprise Bargaining Agreement (EBA) has a 2.2% annual wage increment for staff up to 2024. We have assumed this wage increment will extend to 2028. When normalised on a per water connection basis, the labour cost per connection reduces by 12% over the regulatory period due to connections growth.

Table 11: Labour costs

\$M	2023–24	2024–25	2025–26	2026–27	2027–28
Baseline labour costs	12.36	12.36	12.36	12.36	12.36
Net Opex growth	0.05	0.10	0.14	0.16	0.16
VPS executive remuneration variation	0.05	0.05	0.05	0.05	0.05
<b>Total labour costs</b>	<b>12.46</b>	<b>12.51</b>	<b>12.55</b>	<b>12.56</b>	<b>12.56</b>
Labour cost per connection (\$)	530.43	523.44	516.31	509.01	503.26

### Electricity

Some 4% of total controllable expenditure is spent on energy to run water and wastewater pumping and treatment operations. In developing the energy forecast for PS2023, the IWN Electricity Price Forecast Model was used as a basis, using forecast prices under the Victorian government contract, provided by Schneider (expires 2024). We have used data from sites as inputs into the Schneider/IWN model, adjusted for price and connections growth.

South Gippsland Water has pledged to reduce carbon emissions by 15% and to source 100% of our electricity from renewable sources by 2025 aligning with our Environment Customer Outcome and government policy. Our investment in behind-the-meter solar initiatives has resulted in reduced energy consumption and cost, with pay-back periods of between six and 13 years, dependent on the site.

The following table provides a summary of forecast electricity costs applied to existing volumes, and reductions (less offsets) expected from the installation of behind-the-meter solar initiatives.

Table 12: Forecast electricity costs 2023–24 to 2027–28

\$M	2023–24	2024–25	2025–26	2026–27	2027–28
Electricity costs (Vic Gov prices)	0.86	0.85	0.85	0.86	0.85
Less: Offsets	0.05	0.06	0.06	0.06	0.05
Proposed forecasted electricity costs	0.80	0.80	0.80	0.81	0.80

The behind-the-meter solar installations alone will not meet our emission reduction targets. We are a member of the water industry's large-scale renewable project, Zero Emissions Water (ZEW), where members collaboratively purchase power and Large-scale Generation Certificates.



## Chemicals

About 5% of controllable expenditure is spent on chemical use for water and wastewater treatment.

We procure chemicals at a competitive price, in conjunction with many other water corporations. We assume chemical unit costs will increase due to the current economic conditions, which is higher than the CPI increase. This is due to significant increases in transport, fuel and raw materials. There is minimal opportunity to reduce these costs (without major infrastructure investment) due to relatively poor raw water quality we source from open catchments and small reservoirs.

The following table provides a summary of forecast chemical costs, which proposes that South Gippsland Water will carry the risk for potential higher chemical costs.

Table 13: Baseline chemical costs 2023–24 to 2027–28

\$M	2023-24	2024-25	2025-26	2026-27	2027-28
Total chemical cost	1.07	1.07	1.07	1.07	1.07
Opex growth	0.00	0.01	0.02	0.02	0.02
<b>Total chemical cost</b>	<b>1.08</b>	<b>1.08</b>	<b>1.09</b>	<b>1.09</b>	<b>1.09</b>

## Information Communication and Technology

ICT and Technology costs have increased over the past 10 years due to the progressive automation and upgrade of core business systems and treatment plant telemetry systems to improve our reliability. Increased government compliance and data security requirements have also contributed to ICT costs.

WSAA industry benchmarking in 2019–20 revealed this category remains low cost on a per user basis. ICT costs are expected to increase for PS2023 from the baseline and will be maintained throughout the period due to:

- The Department of Premier and Cabinet (DPC) proposed whole Water Sector Cybersecurity Solution.
- State Purchase Contract (SPC) price changes such as: mobile devices, point to point radios, internet costs and data centre expenses.
- keeping in line with increased capital expenditure as new licences are purchased, and operating costs are incurred into business as usual.

The following table provides a summary of forecast ICT costs.

Table 14: Forecast ICT costs 2023–24 to 2027–28

\$M	2023-24	2024-25	2025-26	2026-27	2027-28
Baseline ICT costs	1.59	1.59	1.59	1.59	1.59
Opex growth	0.01	0.01	0.02	0.02	0.02
Cybersecurity variation	0.19	0.19	0.19	0.19	0.19
<b>Total ICT costs</b>	<b>1.79</b>	<b>1.79</b>	<b>1.80</b>	<b>1.80</b>	<b>1.80</b>

## Forecast variations or 'step changes' in operating expenditure

We have assessed future changes to our base year investment by focussing on our Customer Outcomes and delivering on the areas customers value the most. We have identified the following areas, with operating cost increases either proposed or absorbed.

### Carbon Management Strategy

South Gippsland Water is committed to the environment and we are on the path to become carbon neutral. We are implementing the whole-of-government pledge of 100% renewable energy by 2025 and our Carbon Management Strategy commitment to achieve net zero emissions by 2035. This environmental focus benefits the future of our growing region in a changing climate.

The costs to achieve Scope 2 Emissions commitment (to use 100% renewable electricity by 2025), as well as Scope 1 Emissions (reduction in direct emissions costs by 2030), are in the table below.

Table 15: Carbon Management costs 2023–24 to 2027–28

\$M	2023–24	2024–25	2025–26	2026–27	2027–28
Carbon Management Strategy	-	0.08	0.08	0.08	0.08

### Cybersecurity Costs

Department of Premier and Cabinet (DPC) proposed whole Water Sector Cybersecurity Solution costs are expected to be taken up by water corporations.

Table 16: Cybersecurity costs 2023–24 to 2027–28

\$M	2023–24	2024–25	2025–26	2026–27	2027–28
Cybersecurity costs	0.20	0.20	0.20	0.20	0.20

### Victorian Public Sector Executive Reforms and Executive Remuneration

Baseline costs do not include adjustments to executive remuneration arising from the Victorian Public Sector Executive Reforms and Executive Remuneration reviews.

Table 17: Victorian Public Sector Executive Reforms and Executive Remuneration costs 2023–24 to 2027–28

\$M	2023–24	2024–25	2025–26	2026–27	2027–28
VPC Reform and Executive Remuneration	0.05	0.05	0.05	0.05	0.05

### Urban Water Strategy 2027–28

To ensure a robust planning process, South Gippsland Water will require external assistance to develop the Urban Water Strategy (UWS), which is due in 2027. The scope and associated cost of the 2022 UWS has been used to estimate future costs.

Table 18: Urban Water Strategy development costs 2023–24 to 2027–28

\$M	2023–24	2024–25	2025–26	2026–27	2027–28
Development of Urban Water Strategy	-	-	-	0.25	-

## Non-controllable cost forecasts

The following section describes the assumptions made about forecasting non-controllable costs for South Gippsland Water.

### Water security

#### Melbourne Water Supply System Bulk Entitlement

South Gippsland Water currently pays Melbourne Water for bulk entitlement charges for 1 gigalitre of bulk entitlement. We have the option to purchase up to 4 gigalitres of additional supply under an agreement with State Government. In line with our UWS, we propose to purchase an additional 2 GL of bulk entitlement in 2024 and will pay for 3 GL of bulk entitlement water from 2024–25. The increased bulk entitlement secures the Lance Creek water supply system.

The Lance Creek water supply system services 63% of South Gippsland Water's customers. As early as the mid-2020s, the water supply for the Lance Creek system will not be sufficient to meet demand. At this point, staged water restrictions could occur more often than our agreed target level of service. The frequency, duration and severity of restrictions will increase as a result of climate change and demand growth.

We have the option to purchase additional bulk entitlement under an agreement with a 'sunset' clause of 2024. We provided customers with the choice of purchasing between 0 GL and 4 GL. They chose a mid-point of an additional 2 GL. We have adopted the position, after reviewing it as part of the UWS development, and plan to purchase 2 GL additional bulk entitlement to secure this water supply. If purchase of the additional bulk entitlement is made after 2024 both the availability and cost of the supply will become uncertain. Given that all the water corporations connected to the Melbourne system face similar future supply and demand challenges as SGW, a likely outcome of a delayed purchase is that the water will cost the equivalent of new sources that will be added to the Melbourne system in future. These new sources will be 'manufactured water' such as water produced by desalination, which is considerably more costly than the current charges. The existing agreement, which sunsets in 2024, will cost the same as water already purchased from the Melbourne system. Scenario analysis has shown that the lowest long-term customer cost will be achieved through purchase of the additional bulk entitlement in 2024<sup>20</sup>.

This purchase supports our Water Customer Outcome. It will protect the water supply for future generations. The water security risk has been shared between the customer and South Gippsland Water.

The estimated operational costs for the regulatory period are shown below. These estimates are based on current Melbourne Water charges and on assumed Melbourne system water use, based on a medium climate change impact scenario and water demand growth of 1.5% per year.

Table 19: Melbourne Water Supply System Bulk Entitlement costs 2023–24 to 2027–28

\$M	2023-24	2024-25	2025-26	2026-27	2027-28
Purchase of 2 GL bulk entitlement (capital expenditure)	0.76	-	-	-	-
Non-controllable (fixed cost – Melbourne Water GL)	0.38	1.12	1.12	1.12	1.12
Non-controllable (variable water consumption – Melbourne Water)	0.21	0.30	0.30	0.30	0.30

\*FY2023–24 1 GL; FY2024–25 onwards 3 GL

### Environmental contribution

South Gippsland Water customers currently make an annual contribution to DELWP for initiatives that promote the sustainable management of water. The contribution is \$1.4 M for the period 1 July 2020 to 30 June 2024 and is subject to review every four years. The new tranche retains the existing percentages of revenue to be paid as environmental contribution based on 5% of our core water and wastewater annual revenue.

### Licence fees

Licence fees consist of regulatory charges incurred from the Essential Services Commission, Department of Health, and Environment Protection Authority, Victoria. These regulatory fees are assumed to remain constant in real terms, over the next five years.

## Forecast operating costs

The approach we have adopted for PS2023 means we have a high degree of confidence that we have identified opportunities and improvements to ensure actual costs are consistent with efficient practices. Over the course of 2022–23 to 2027–28, controllable operating costs per water connection are forecast to decline by 5.5% from \$974 to \$925 primarily due to efficiency improvements. We are securing our future together to meet the needs of residential growth and our environment.

Total operating expenditure of \$128.1 M is forecast for the PS2023 period, which includes \$12.95 M of non-controllable expenditure.

The following table provides a breakdown of total controllable operating expenditure, including the impact of any future variations.

Table 20: Total controllable operating expenditure 2023–24 to 2027–28

\$M	2023–24	2024–25	2025–26	2026–27	2027–28
<b>Controllable operating expenditure (baseline)</b>	<b>22.66</b>	<b>22.73</b>	<b>22.80</b>	<b>22.81</b>	<b>22.82</b>
Urban Water Strategy consultancy	-	-	-	0.25	
Carbon Management Strategy	-	0.08	0.08	0.08	0.08
Consultancy PS2028 Submission costs*	-	-	-	-	0.12
Consultancy PS2023–PS2028 Submission costs**	-0.12	-0.12	-0.12	-0.12	-0.12
Cybersecurity costs	0.20	0.20	0.20	0.20	0.20
Victorian Public Sector Executive Reforms and Executive Remuneration	0.05	0.05	0.05	0.05	0.05
<b>Total controllable operating expenditure</b>	<b>22.79</b>	<b>22.94</b>	<b>23.01</b>	<b>23.27</b>	<b>23.15</b>

\*FY2027–28 consultancy costs to support the Regulatory Period 6 Price Submission process

\*\*Part of 2022–23 base costs and removed yearly as this is non-recurring

The following table provides a breakdown of total operating expenditure, including non-controllable expenditure.

Table 21: Total operating expenditure 2023–24 to 2027–28

\$M	2023–24	2024–25	2025–26	2026–27	2027–28
Total controllable operating expenditure	22.79	22.94	23.01	23.27	23.15
Total non-controllable operating expenditure	2.01	2.79	2.75	2.72	2.68
<b>Total operating expenditure</b>	<b>24.80</b>	<b>25.73</b>	<b>25.76</b>	<b>25.99</b>	<b>25.83</b>

## 6.3 Capital investment

### At a glance

- We propose capital investment of \$133.1 M over the regulatory period.
- Our investment is increasing to support regional growth and development in our changing region and to set up our services for future generations.
- We are also investing to protect the environment and ensure our services are maintained.
- Our largest planned project supports our two largest customers who are significant regional employers.
- Investment of \$69.5 M on wastewater has been prioritised to achieve Environment and Wastewater Customer Outcomes.
- We propose to invest \$57.5 M on growth-driven projects.

### Prudent capital expenditure planning

South Gippsland Water has a consistent and well-planned pathway forward. We aim to meet customer and regulatory expectations in a manner that maximises long-term value for customers and future generations and effectively balances service standards and prices. This is achieved by:

- maximising the utility of existing infrastructure to avoid or defer new capital investment
- planning delivery of infrastructure upgrades when they are needed (and not before) via our adaptive planning approach
- when an asset renewal or upgrade is required, we investigate strategic and project options. We select the option that delivers on Customer Outcomes at the lowest long term customer price.

We aim to deliver renewal and upgrade projects supporting growth in our changing climate 'just-in-time'. This adaptive planning approach is to mitigate the risks of projects being planned too early or late. We use up-to-date information on growth forecasts, asset condition and asset performance.

We accept the risk posed by scheduling uncertainty for projects and renewals. Our track record provides clear evidence of prudent project timings. This includes:

- Upgrades to the Korumburra sewer network were brought forward to meet Customer Outcomes (Wastewater, Reliability and Environment) and regulatory obligations when needed.
- Our program to renew liners and floating covers at drinking water basins has been accelerated by about a year relative to PS2020, based on up-to-date condition assessments.
- Renewing the water main in the Wonthaggi town centre was brought forward based on asset performance.

For the 2023–28 period, we have not included projects that have uncertain timing and/or scope. We have included the project development costs only for some projects which are uncertain at this moment, as outlined in the table below.

Table 22: Projects with expenditure deferred 2023–24 to 2027–28

Project	Customer Outcome / Driver	Project development costs	Project implementation costs
Billing system renewal	Reliability / Renewal	2023–28	2028–33
Facilities Strategy	Reliability / Renewal	2023–28	2028–33

### Billing system renewal

South Gippsland Water's billing system is at the end of its service life and needs replacement during the 2023–28 period. We have been working with other water corporations to explore potential shared services or procurement. A pre-market business case is being prepared and only project development costs have been included in PS2023, due to uncertainty of the project scope and cost. Project development costs of \$0.4 M have been included in the planned expenditure for 2023–28 but additional implementation costs, believed to be in the order of \$3–4 M, have not been included.

## Facilities Strategy

South Gippsland Water has been planning to rationalise and renew depot and office facilities for several years. This project was deferred to allow for the 2018 Sustainable Strategic Directions review with DELWP, and then again in 2020 due to the impact of COVID-19.

Recent years have seen a dramatic change in the way we use our offices and depots. Lessons from working practices adopted during the pandemic must be built into the Facilities Strategy – this work is planned for late 2022 and early 2023. At this stage, the scope of the strategy is unknown and only project development costs of \$0.5 M have been included in the 2023 Price Submission planned expenditure. Additional implementation cost, believed to be in the order of \$8 M, have not been included.

## Risk-based project prioritisation

Projects included in the PS2023 capital investment plan have been prioritised using a process developed by a third-party consultant to support our 2020 Price Submission. For PS2023<sup>21</sup>, we have completed minor process updates to better reflect our Risk Management Framework and project costs. We prioritise projects that have a compliance driver addressing health, safety and wellbeing risks, have whole-of-life cost benefits or benefit a large proportion of customers. The prioritisation process is based on:

- *the risk a proposed project mitigates*
- *the capital cost and operational cost impact*
- *the driver and outcome*
- *the customer benefits.*

For this Price Submission, over 100 projects went through the prioritisation process and approximately 25 projects with a value of \$21.5M were deferred to future price periods.

## Efficient capital investment

South Gippsland Water uses a range of tools to ensure capital investment is efficient, to maximise value-for-money and minimise customer prices in the long term.

All projects are subject to options analysis to identify the lowest whole-of-life costs (usually estimated by Net Present Value) and by complementary non-cost criteria evaluation. Increasingly, an adaptive planning approach is being taken to accommodate future uncertainty in planning assumptions.

We target and attract small and medium-sized consultants and contractors for delivery projects and specialist tasks where possible. This approach has demonstrated proven efficiencies.

Projects are subject to a detailed review to ensure the project objectives are met at minimum cost. Procurement approaches are carefully considered for each project to maximise value-for-money.

Some projects have been bundled for delivery efficiencies. An example is the renewal and upgrade of clear water storage covers and liners for Fish Creek and Toora, and then Poowong and Devon North, to minimise costs. As a result of this approach, we have reduced forecast costs between 2023 to 2028 accordingly. We also target and attract small and medium-sized contractors for most delivery projects (further explored in Chapter 3 Risk) and have achieved demonstrable construction contract efficiency as a result.

## Cost estimations

Cost estimates for major discrete projects have been developed by engineering and design consultants based on the design information available at the time of business case development. We have a detailed Cost Estimation Guideline<sup>22</sup> that is used to define the standard of cost estimates produced to support project development. Estimates were risk assessed and Monte Carlo analysis was used to generate P50 values that underpin PS2023. P50 estimates were developed for the majority of planned discrete projects (accounting for 90% of the planned investment). For renewal allocations, forecast expenditure is based on current contracted rates or rates experienced during the 2018–23 period. Rates for water reticulation, transfer and distribution mains were cross checked using reports produced by engineering consultants and are available upon request.

Business cases, available for our top 15 proposed discrete projects, include details of the cost estimate and estimate risk assessment.

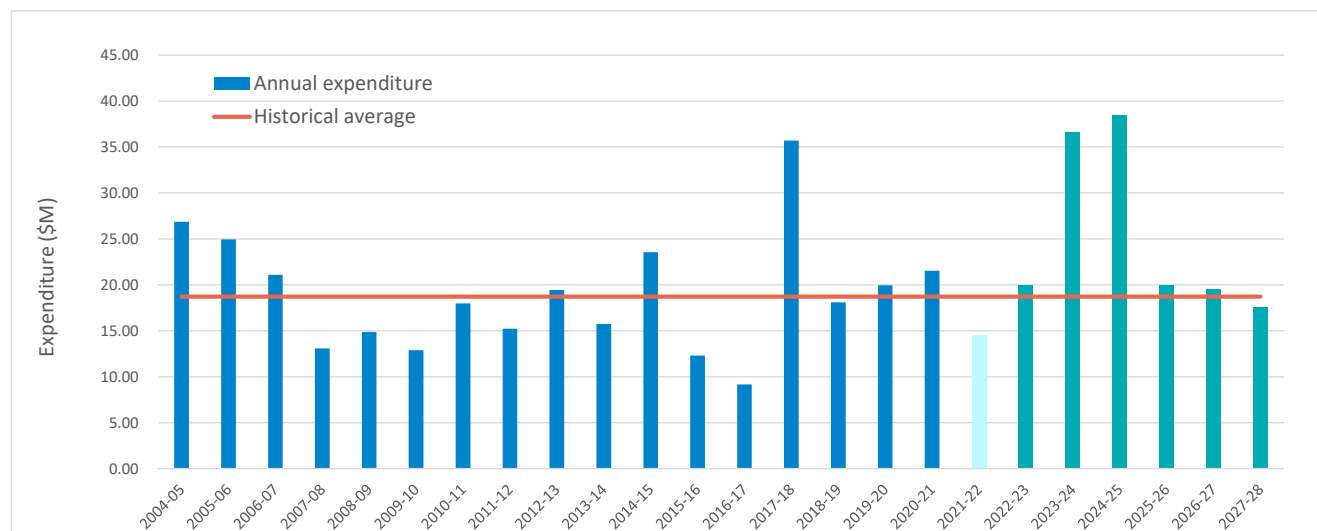
21 SGW Prioritisation Tool – PS2023  
SGW Prioritisation for PS2023 Summary

22 NTE-002 Cost Estimation Guidelines Information

## Comparison with historical capital expenditure

South Gippsland Water's annual capital investment has averaged approximately \$18.7 M (in 2022–23), since 2004–05 as shown in the figure below.

Figure 12: Historical and forecast capital expenditure 2004–05 to 2027–28



Past expenditure shows considerable variation year by year, with peaks coinciding with larger projects having been mandated or driven by growth and compliance.

Expenditure proposed for 2023–28 is \$26.6 M per year, higher than the long-term average of \$18.7 M. The increased proposed expenditure has been driven by a range of factors. Growth expenditure for PS2023 will increase by approximately \$6 M per year relative to the previous five years, driven by projects in the west of our region.

Growth projects account for 43% of proposed expenditure compared to 36% during the current price period. In addition, construction cost escalation has outpaced CPI over the past two years, and this is reflected in cost estimates for major discrete projects which have been updated or completed over the first half of 2022.

## Proposed capital expenditure

Proposed capital expenditure for the period is \$133.1 M\*, of which:

- \$57.5 M or 43% is to support our growing and developing region
- \$18.6 M is to support our region's two major customers by upgrades and renewals to protect the environment
- \$39.8 M is for renewal of other assets to support services for future generations
- \$16.7 M or 13% is for projects driven by compliance
- \$0.5 M is for projects driven solely by business improvements.

The tables below summarise proposed expenditure according to the primary project driver, the service category and asset category from 2023 to 2028.

Table 23: Capital expenditure forecast by driver 2023–24 to 2027–28

Cost Driver	Expenditure (\$M)	% of expenditure
Growth	\$57.5	43.2
Renewal	\$58.4	43.8
Compliance	\$16.7	12.6
Improvements	\$0.5	0.4

\*Exclusive of Pressure Sewer System pass through (see chapter 8.4 NCC) of \$3.21 M.

Table 24: Capital expenditure forecast by service category 2023–24 to 2027–28

Service Category	Expenditure (\$M)	% of expenditure
Water services	\$50.6	38.1
Sewerage and Trade Waste Services	\$68.6	51.5
Multiple categories	\$13.9	10.4

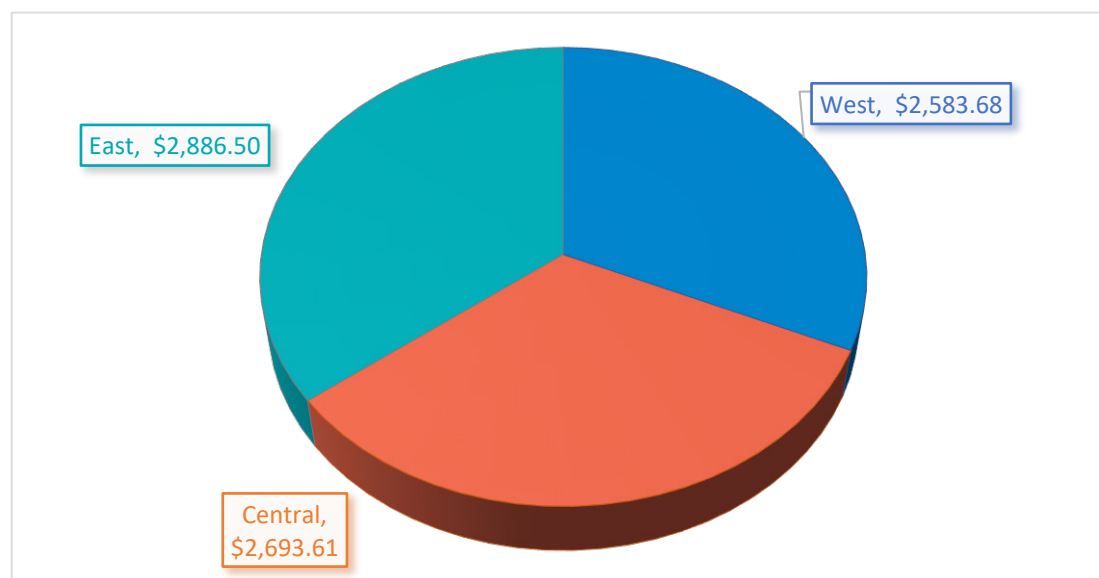
Table 25: Capital expenditure forecast by asset category 2023–24 to 2027–28

Asset Category	Expenditure (\$M)	% of expenditure
Headworks	\$5.5	4.1
Water entitlements	\$0.8	0.6
Pipes and channels	\$67.9	51.0
Treatment	\$45.6	34.3
Corporate	\$6.0	4.5
Multiple categories	\$7.3	5.5

Table 26: Capital expenditure forecast by year and driver 2023–24 to 2027–28 (\$M)

Project Driver (\$ M)	2023–24	2024–25	2025–26	2026–27	2027–28
Asset Renewal	\$14.9	\$19.8	\$9.5	\$6.9	\$7.2
Compliance	\$3.1	\$4.9	\$3.6	\$4.2	\$1.0
Growth	\$18.1	\$13.7	\$7.7	\$8.4	\$9.7
Improvements	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
<b>Total</b>	<b>\$36.2</b>	<b>\$38.5</b>	<b>\$20.9</b>	<b>\$19.6</b>	<b>\$17.9</b>

Figure 13: Investment by region (\$ per customer connection)



**East:** Foster, Toora, Welshpool, Port Welshpool, Yarram, Alberton, Port Albert

**West:** Wonthaggi, Inverloch, Cape Paterson, Nyora, Loch, Poowong, Korumburra

**Central:** Leongatha, Koonwarra, Dumbalk, Meenian, Fish Creek, Waratah Bay



## Major projects

South Gippsland Water's top 10 major discrete projects for PS2023 are presented over the following pages. These projects deliver on Customer Outcomes, support growth, protect the environment and set up our services for future generations.

### **Wonthaggi Sewerage System Capacity Upgrades<sup>23</sup>**

#### **Customer Outcomes – Wastewater and Reliability**

**Why:** The project is growth driven to continue to provide a safe wastewater service and protect the environment from spills. Without the upgrades, growth in the town will result in overloading the sewer network and spills will occur. Investing in infrastructure sets up our services for future generations.

**What:**

Reconfigure and upgrade four pumping stations in East Wonthaggi

Reconfigure the north sewer catchments to remove need for future upgrades and rationalise existing assets

Undertake design works for trunk main upgrades due after 2028 to resolve a likely wet weather spill point at South Dudley.

**When:** 2023–24 to 2027–28

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
\$6.17	-	-	\$0.52	\$0.29

\$6.98 M (P50 cost estimate)

### **Wonthaggi Wastewater Treatment Plant Upgrade and Baxters Beach Outfall<sup>24</sup>**

#### **Customer Outcomes – Wastewater and Reliability**

**Why:** The project is growth driven. The wastewater treatment plant and associated Baxters Beach Outfall require upgrades. A major plant upgrade is proposed late in the 2020s and an outfall upgrade in the 2030s.

**What:** The project will be South Gippsland Water's largest major project in the regulatory price period starting in 2028 and will require planning, community engagement and design (to be undertaken between 2023 and 2028). Without the upgrades, the treatment capacity of the plant will be exceeded resulting in odour, poor effluent quality, potential environmental impact and EPA Discharge Licence non-compliance.

Increasing the aeration capacity at the treatment plant by installing additional surface aerators will be required early in the 2023–28 period to maintain treated effluent quality ahead of the major upgrade.

**When:** 2023–24 to 2027–28

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
\$2.80	\$0.88	\$0.53	\$0.78	\$0.58

\$5.57 M (P50 cost estimate)

<sup>23</sup> Wonthaggi Sewerage System Capacity Upgrades to the Network - Business Case and Master Plan

<sup>24</sup> Wonthaggi Wastewater Treatment Plant Upgrade and Baxters Beach Outfall Business Case

**Lance Creek Clear Water Storage Upgrade<sup>25</sup>****Customer Outcome – Reliability**

**Why:** This project is growth driven to provide reliable infrastructure and assets for the future. The Lance Creek water system supplies over 60% of South Gippsland Water's drinking water customers. Clear water storage capacity in the system was last increased over 20 years ago – the population serviced has increased by over 50% in that time. Additional storage capacity is required to maintain service reliability, particularly for distribution main customers such as the large abattoir near Wonthaggi. Without the upgrade, the frequency of low-pressure events and supply interruptions for customers will increase.

**What:** Construction of an additional Clear Water Storage at Lance Creek Water Treatment Plant.

**When:** 2023–24 to 2025–26

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
\$0.5	\$7.16	\$1.0		

\$8.66 M (P50 cost estimate)

**Poowong, Loch and Nyora Water Augmentation<sup>26</sup>****Customer Outcomes – Reliability and Water**

**Why:** The projects are growth driven. Water distribution infrastructure servicing Nyora and Poowong has insufficient capacity to accommodate growth and must be upgraded. Pressure deficiencies already mean we cannot meet the requirements of the Customer Charter for some properties. Without the project, the number and frequency of low-pressure complaints will increase.

**What:** Provide new reticulation mains for adequate service to Poowong customers who are currently serviced by a distribution main.

Install a booster pump station at Poowong Tower to resolve pressure deficiencies and install a dedicated inlet to Poowong Tower to resolve water quality issues due to low turnover.

Install a booster pump station at Nyora Tower to ensure compliance with the flow rate specified in our Customer Charter and add additional storage at the Nyora Tower site.

Provide a new section of upsized distribution main to eliminate a hydraulic restriction to increase water available to Nyora.

Undertake design works for further distribution main upgrades from Loch to Nyora for construction in 2028.

**When:** 2023–24 to 2027–28

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
\$3.22	\$0.57	\$0.76	\$1.01	\$0.34

\$5.90 M (P50 cost estimate)

<sup>25</sup> Lance Creek Clear Water Storage Upgrade Business Case

<sup>26</sup> Poowong, Loch and Nyora Water Augmentation Business Case

### Venus Bay Outfall Upgrade and Renewal<sup>27</sup>

#### Customer Outcomes – Environment, Wastewater and Reliability

**Why:** The drivers are compliance and renewal.

To continue to provide the region's two largest customers with reliable wastewater services, and to avoid wastewater spills and business continuity risks, the Venus Bay Outfall requires upgrade and renewal. Without the upgrades and renewal, the EPA is highly likely to take enforcement action against South Gippsland Water, forcing remedial action.

**What:** Renewal and upgrade of 24 km of pipeline for treated saline wastewater (the Venus Bay Outfall) and upgrade of parts of the Korumburra sewer network as part of a long-term strategy for two major customers.

Additional upgrade and renewal will be required after 2028.

**When:** 2021–22 to 2025–26

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
\$6.33	\$10.00	\$2.26	-	-

\$18.59 M (P50 cost estimate)

### Foster Wastewater Treatment Plant Upgrade<sup>28</sup>

#### Customer Outcomes – Environment and Water

**Why:** The drivers are compliance and growth.

We are planning an upgrade to the wastewater treatment plant to support regional growth and the environment. The upgrade will improve effluent quality, support re-use, protect the environment and reduce compliance risk. Without the upgrade, the EPA will likely take enforcement action against South Gippsland Water requiring remedial action.

**What:** Upgrade of the lagoon-based wastewater treatment plant to improve treated effluent quality so it is better suited to the existing re-use scheme. The project will also involve desludging the lagoons to renew and recover treatment capacity.

**When:** 2023–24 to 2025–26

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
\$2.08	\$3.75	-	-	-

\$5.83 M (P50 cost estimate)

<sup>27</sup> Venus Bay Outfall Upgrade and Renewal Business Case

<sup>28</sup> Foster Wastewater Treatment Plant Upgrade Business Case

### Leongatha Wastewater Treatment Plant Upgrades<sup>29</sup>

#### Customer Outcomes – Environment and Wastewater

**Why:** The drivers are compliance, renewal and growth.

Leongatha Wastewater Treatment Plant has a history of transient breaches of the Environment Protection Authority Discharge Licence. Some upgrade works were completed to reduce the risk during the 2018 to 2023 period and additional work is required to further reduce risks and protect the receiving environment. Major renewals are also required to maintain plant performance and protect the environment.

**What:** Construction of an additional emergency storage lagoon.

Clean out and renewal of the sludge digester.

Renewal and upgrade of the plant grit and screenings removal processes and chemical dosing system.

**When:** 2023–24 to 2026–27

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
\$0.50	\$1.05	\$1.59	\$1.37	-

\$4.51 M (P50 cost estimate)

### Inverloch Wastewater Treatment Plant Upgrades<sup>30</sup>

#### Customer Outcomes – Environment and Wastewater

**Why:** The project is driven by growth and renewal.

To support growth forecast in Inverloch, the wastewater treatment plant requires capacity upgrades. The treatment plant is a lagoon-based system and periodic desludging is required to maintain treatment capacity.

**What:** The upgrades include installation of additional aerators, installation of baffle curtains in the lagoon's renewal, and upgrade of interconnecting pipework between lagoons and desludging.

**When:** 2026–27 to 2027–28

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
-	-	-	\$2.36	\$1.94

\$4.30 M (P50 cost estimate)

<sup>29</sup> Leongatha Wastewater Treatment Plant Upgrades Business Case

<sup>30</sup> Inverloch and Cape Paterson Wastewater Treatment Plant Upgrades Business Case

### **Toora Water Treatment Plant Upgrade<sup>31</sup>**

#### **Customer Outcomes – Water and Environment**

**Why:** The project is driven by compliance.

The Toora Water Treatment Plant requires an upgrade to improve drinking water safety. The plant uses filters that cannot be monitored or controlled to demonstrate it adequately removes pathogens in accordance with the Water Services Association of Australia Health Based Target Manual. The existing filters also require renewal to maintain reliability.

The plant discharges filtered wash water to the Agnes River, rather than recycling the wash water to the plant inlet. This configuration is not good practice. This project will involve re-using the wash water.

**What:** Two new dual media gravity filters and associated ancillary equipment will be installed.

A new wash water management system will be installed to minimise discharge of wash water to the environment and maximise use of the raw water source.

**When:** 2023–24 to 2026–27

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
\$0.19	\$0.28	\$1.84	\$2.11	-

*\$4.42 M (P50 cost estimate)*

### **Leongatha Water Supply Augmentation<sup>32</sup>**

#### **Customer Outcome – Water**

**Why:** The project is driven by growth.

Leongatha has our region's least secure water supply with restrictions forecast one year in four, severe restrictions one year in 10 and insufficient water to accommodate demand under severe restrictions (seven years out of every 100).

To provide services for future generations and adapt to our changing climate, we will upgrade the Leongatha Water Treatment Plant and the town's water supply. The upgrade planned will also protect the environment by re-using wash water, rather than disposing it to a waterway.

**What:** Capture and re-use of wash water from the treatment plant that is currently discharged to a waterway.

Planning and design work for a future major upgrade to the supply system

**When:** 2023–24 to 2027–28

(\$M)				
2023–24	2024–25	2025–26	2026–27	2027–28
\$0.35	\$2.48	\$0.14	\$0.73	\$0.72

*\$4.42 M (P50 cost estimate)*

31 Toora Water Treatment Plant Upgrade Business Case

32 Leongatha Water Supply Augmentation Business Case

## Capital programs

The top 10 capital programs planned for the period 2023 to 2028 are all driven by renewal. Supporting Customer Outcomes – Reliability, Water, Wastewater and Environment

Table 27: Capital program summary for 2023–24 to 2027–28

Program	Service Category	Expenditure	Trend
Water Reticulation Renewal	Water services	\$1.20 M/yr	▲
Reticulation Sewer Rehabilitation	Sewerage and trade waste services	\$0.82 M/yr	▶
Transfer and Distribution Main Renewal	Water services	\$0.76 M/yr	▲
Water Treatment Plant Renewal	Water services	\$0.59 M/yr	▶
Wastewater Treatment Plant Renewal	Sewerage and trade waste services	\$0.53 M/yr	▶
Vehicle Renewal	Multiple	\$0.65 M 2023–24 \$1.77 M 2024–25 \$0.19 M 2025–26 \$0.19 M 2026–27 \$0.25 M 2023–24	▼
IT Hardware Renewal	Multiple	\$0.44 M/yr	▶
Sewer Pump Station Renewal	Sewerage and trade waste services	\$0.30 M/yr	▶
SCADA Renewal (programming)	Multiple	\$0.29 M/yr	▶
SCADA Renewal (equipment)	Multiple	\$0.29 M/yr	▶

▲ Investment increase ▶ Investment not changing ▼ investment declining

South Gippsland Water plans to continue with the current rate of investment in all but three of the 10 largest programs. We upgraded the operational and maintenance vehicle fleet in the current price period, thereby reducing the planned investment in this price period.

Planned investment in water reticulation, and water transfer and distribution mains are higher than the current price period. Failure rates in both asset classes have increased in recent years and long-term modelling shows an increased rate of renewal is necessary to maintain our service standards.

The increase in expenditure for both asset classes was flagged in the 2020 Price Submission. Detailed asset performance analysis and modelling has been used to forecast the renewal allocations required into the future and this work is described in the Asset Class Plans and associated supporting documents. To maintain current customer service standards, we forecast that an average of \$1.5 M per year must be invested in water reticulation main renewal over the next 25 years. We have chosen to minimise the increase in the water reticulation main renewal allocation to the minimum investment required over the next five years to maintain service standards (\$1.2 M per year). This implies that the rate of investment will need to increase in future regulatory price periods to maintain service standards.

Transfer and distribution mains are critical assets that require renewal based on risk to customer service standards as well as asset performance.

## Other capital projects and programs

The table below summarises the next top 10 discrete projects and programs that are not described in the sections above.

Table 28: Other capital projects and programs for 2023–24 to 2027–28

Project or program	Customer Outcome	Primary Driver	Expenditure (\$M over 5 years)
Wonthaggi Water Mains Expansion	Reliability	Growth	\$3.39
Inverloch Sewer System Expansion	Wastewater	Growth	\$3.18
Foster WTP Filter Renewal	Water	Compliance	\$2.75
Cape Paterson WWTP Upgrades	Wastewater	Growth	\$2.19
Korumburra Sewer System Expansion	Wastewater	Growth	\$1.67
Service Basin Cover and Liner Replacements	Water	Renewals	\$1.58
Sewer Sideline Renewal Allocation	Wastewater	Renewals	\$1.33
Plant and Equipment Renewal	Reliability	Renewals	\$1.30
Leongatha Sewer System Expansion	Wastewater	Growth	\$1.10
Minor water quality improvements	Water	Compliance	\$1.04

## 7 Revenue Requirement

### At a glance...

- We have calculated a Revenue Requirement of \$199.94 M for the period.
- Our opening Regulatory Asset Base (RAB) at 1 July 2023 is expected to be \$221.49 M and \$300.59 M by 2027–28.
- We do not expect to make tax payments.

This Price Submission has been developed to ensure we can continue to provide reliable services to residential and non-residential customers for the future. Our operating environment is changing with increased uncertainty in economic activity and climate impacts. This means we will have ongoing future challenges. We need a revenue requirement of \$199.94 M for the period to meet customer expectations, and maintain financial sustainability.

### 7.1 Forecast regulatory asset base

The Opening Regulatory Asset Base for 2023–24 has been calculated by:

- adding actual capital investment for years one to four and the ESC approved capital investment for year five of the current period to the opening RAB in 2018–19, and
- subtracting actual new customer contributions, any government contributions, asset disposals and regulatory depreciation.

Table 29: Regulatory Asset Base, 2018–19 to 2022–23

\$M	2018–19	2022–23
Opening asset base	173.48	213.94
plus Gross capex	18.45	15.77
less Government contributions	7.81	-
less Customer contributions	1.80	1.99
less Proceeds from disposals	0.01	0.08
less Regulatory depreciation	4.50	6.14
<b>Closing asset base</b>	<b>177.80</b>	<b>221.49</b>

The proposed capital program for PS2023 is forecast to increase the RAB in line with the table below.

Table 30: Proposed capital program forecast 2023–24 to 2032–33

\$M	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33
Opening asset base	221.49	248.64	277.29	287.58	295.45	300.59	322.22	352.31	371.92	387.00
plus Gross capex	37.11	39.43	21.81	19.76	18.16	35.34	44.75	35.15	31.35	31.76
less Government contributions	-	-	-	-	-	-	-	-	-	-
less Customer contributions	3.02	3.10	3.10	2.31	2.31	2.31	2.31	2.31	2.31	2.31
less Proceeds from disposals	0.34	0.33	0.32	0.31	0.30	0.29	0.28	0.28	0.27	0.26
less Regulatory depreciation	6.60	7.35	8.11	9.27	10.41	11.11	12.07	12.95	13.69	14.34
<b>Closing asset base</b>	<b>248.64</b>	<b>277.29</b>	<b>287.58</b>	<b>295.45</b>	<b>300.59</b>	<b>322.22</b>	<b>352.31</b>	<b>371.92</b>	<b>387.00</b>	<b>401.85</b>

## 7.2 Tax

South Gippsland Water's tax estimates show we will not be required to make tax payments (or payments under the National Tax Equivalents Regime) during the period 2023–2028. Therefore, the revenue requirement does not include any component related to tax expense.

## 7.3 Revenue requirement

South Gippsland Water's revenue requirement (see Table 31) reflects the revenue required to deliver on Customer Outcomes. It is premised on prudent and efficient operating and capital expenditure and includes:

- *return on our assets, which is the forecast value of the regulatory asset base (RAB) for each year of the regulatory period, multiplied by the weighted average cost of capital*
- *regulatory depreciation of new and existing assets*
- *operating expenditure, including:*
  - *controllable operating expenditure*
  - *bulk water charges from Melbourne Water*
  - *environmental contribution and other licence fees*
  - *non-prescribed services which offset revenue with operating costs already included in the base line expenditure.*

Table 31: Total revenue requirement for PS2023

	\$ M
Operating expenditure	128.12
Return on assets	31.20
Regulatory depreciation of assets	41.74
Adjustments from last period	0.00
Non-prescribed revenue offset	-1.12
Tax liability	0.00
<b>Total revenue requirement</b>	<b>199.94</b>

South Gippsland Water's proposed revenue requirement to 2032–33 is increasing as illustrated in the table below.

Table 32: Proposed revenue requirement 2023–24 to 2027–28

Revenue component (2022–23 \$)	2023–24	2024–25	2025–26	2026–27	2027–28	Period 5 Total
Operating expenditure	24.80	25.73	25.76	25.99	25.83	<b>128.12</b>
Return on assets	5.99	6.21	6.38	6.33	6.29	<b>31.20</b>
Regulatory depreciation of assets	6.60	7.35	8.11	9.27	10.41	<b>41.74</b>
Non-prescribed revenue offset of revenue requirement	-0.22	-0.22	-0.22	-0.22	-0.22	<b>-1.12</b>
<b>Total revenue requirement</b>	<b>37.17</b>	<b>39.07</b>	<b>40.03</b>	<b>41.36</b>	<b>42.31</b>	<b>199.94</b>



## 8 Price and Tariffs

### At a glance...

*We propose:*

- *for water and wastewater, the tariff structures to remain unchanged*
- *to continue with a price path of 2%, 2%, 3%, 3% and 3% over the next five years*
- *to continue with the existing 'individual price caps' form of price control.*

### 8.1 Price control

In developing our 2023 Price Submission, we considered five forms of price control and where they are used across the Victorian Water sector.

- *Individual price caps*
- *Revenue cap*
- *Weighted average price cap (or price basket)*
- *Weighted average revenue (or revenue yield)*
- *Hybrid approach to any combination of the above*

The form of price control is an important tool in providing a structure for customers and our business for the revenue streams over the regulatory period.

South Gippsland Water currently uses the individual price caps form of price control. Our existing form of price control allocates risk in a fair and consistent way between South Gippsland Water and customers and is understood by customers. We propose to continue with individual price caps for the period 2023–24 to 2027–28.

### 8.2 Price adjustment mechanism

South Gippsland Water proposes to adopt the price adjustment mechanisms identified in the 2020 Price Determination. These allow prices to adjust, taking into account:

- *uncertain and unforeseen events*
- *difference between forecast and actual non-controllable costs associated with Melbourne Water*
- *a 'pass through' of charges in costs such as taxes of environmental contribution during the regulatory period*
- *annual changes to the benchmark cost of debt and Consumer Price Index.*

## 8.3 Tariff structure

### Water

South Gippsland Water's water tariff structure comprises fixed and variable components. We propose to continue the two-part tariff in its existing structure.

We have previously completed an analysis of repositioning the volumetric per kilolitre rate relative to the fixed access fee. This was in response to customers who wanted more control over their bills. However, price shock to larger water users and tenants remains a concern. We propose the water tariff structure between fixed and volumetric remains unchanged for the regulatory period 2023–28.

### Wastewater

South Gippsland Water's 2020 Price Submission proposed to review the non-residential cistern charges, with consideration of a more appropriate user-pays model.

We completed a tariff study<sup>33</sup> to review and develop a non-residential and major customer water, sewerage and trade waste pricing strategy. The study provided insights into a number of alternative tariff options, including price impacts by business water use and size (small, medium and large). When we analysed the non-residential cistern charge demographic, we found a significant price impact on one cistern customer type – shared residential properties.

Modification of the wastewater cistern charge could result in significant price increases for this cohort of customers. Therefore, we have decided not to seek a wastewater tariff reform in this Price Submission. All wastewater tariff categories and structures are proposed to remain unchanged.

The range of tariffs and their compositions are detailed in the table below.

Table 33: SGW Tariff composition

Tariff descriptor	Composition
Retail water	A two-part tariff comprising a fixed access fee and a variable volumetric per kilolitre rate
Retail wastewater Sewer access fee Cistern fee	Residential and general non-residential customers: a single fixed access fee Business customers: a fixed access fee (sewer or cistern) and a volumetric cistern variable fee per kilolitre rate
Trade Waste Trade Waste access fee Volumetric load fee	Applies to business customers that generate trade waste only A two-part tariff comprising a fixed access fee and a variable volumetric per kilolitre rate Penalty fees also apply
Recycled water	A single variable volumetric per kilolitre rate
New Customer Contributions	Standardised rate for new customers to connect to water and wastewater services. Minor fee amendment (see Chapter 8.4 New Customer Contributions)
Miscellaneous fees and cost recovery services	Fees are charged on fixed, cost recovery basis with the exception of a variable kilolitre rate for standpipe water sales

## Price and tariff impacts

The following table outlines proposed prices for residential customers for the next regulatory period. A minor price increase has been applied equally to all tariffs, excluding miscellaneous fees, which are determined by a direct cost recovery method.

We have sought to balance customer impacts by keeping the current price structures consistent, so that high and low consumption users are equally impacted by price changes.

Table 34: SGW residential tariffs and customer impact 2022–23 to 2027–28

Residential tariffs and customer impacts	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
Water service charge	\$348.52	\$355.49	\$362.60	\$373.48	\$384.69	\$396.22
Sewerage service charge (developed)	\$540.89	\$551.70	\$562.74	\$579.62	\$597.02	\$614.92
Sewerage service charge (undeveloped)	\$306.03	\$312.15	\$318.39	\$327.94	\$337.79	\$347.92
Variable water charge (water - kL)	\$2.18	\$2.23	\$2.27	\$2.34	\$2.41	\$2.48
<b>Residential (developed) - average bill (121 kL p.a.)</b>						
Real price	\$1,154	\$1,177	\$1,200	\$1,236	\$1,273	\$1,312
Real price increase per year (\$)	\$65	\$23	\$24	\$36	\$37	\$38
Real price increase per year (%)	6.0%	2.0%	2.0%	3.0%	3.0%	3.0%
<b>Residential - 200 kL p.a.</b>						
Real price	\$1,326	\$1,353	\$1,380	\$1,421	\$1,464	\$1,508
Real price increase per year (\$)	\$77	\$27	\$27	\$41	\$43	\$44
Real price increase per year (%)	6.1%	2.0%	2.0%	3.0%	3.0%	3.0%
<b>Tenants - 200 kL p.a.</b>						
Real price	\$437	\$445	\$454	\$468	\$482	\$497
Real price increase per year (\$)	\$30	\$9	\$9	\$14	\$14	\$14
Real price increase per year (%)	7.3%	2.0%	2.0%	3.0%	3.0%	3.0%
<b>Vacant land (undeveloped properties)</b>						
Nominal price	\$655	\$668	\$681	\$701	\$722	\$744
Real price increase per year (\$)	\$34	\$13	\$13	\$20	\$21	\$22
Real price increase per year (%)	5.6%	2.0%	2.0%	3.0%	3.0%	3.0%

Non-Residential tariffs and customer impacts	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28
Water service charge	\$348.52	\$355.49	\$362.60	\$373.48	\$384.69	\$396.22
Water service charge (concessional)	\$279.56	\$285.15	\$290.85	\$299.58	\$308.57	\$317.82
Water service charge (agreement)	\$313.70	\$319.97	\$326.37	\$336.16	\$346.25	\$356.64
Sewerage service charge (developed)	\$540.89	\$551.70	\$562.74	\$579.62	\$597.02	\$614.92
Sewerage service charge (undeveloped)	\$306.03	\$312.15	\$318.39	\$327.94	\$337.79	\$347.92
Variable water charge (water - kL)	\$2.18	\$2.23	\$2.27	\$2.34	\$2.41	\$2.48
<b>Non-residential - 250 kL p.a.</b>						
Real price	\$1,435	\$1,464	\$1,493	\$1,538	\$1,584	\$1,632
Real price increase per year (\$)	\$84	\$29	\$29	\$45	\$46	\$48
Real price increase per year (%)	6.2%	2.0%	2.0%	3.0%	3.0%	3.0%
<b>Concessional - 150 kL p.a.</b>						
Real price	\$1,148	\$1,171	\$1,194	\$1,230	\$1,267	\$1,305
Real price increase per year (\$)	\$66	\$23	\$23	\$36	\$37	\$38
Real price increase per year (%)	6.1%	2.0%	2.0%	3.0%	3.0%	3.0%
<b>Agreement - 700 kL p.a.</b>						
Real price	\$2,383	\$2,431	\$2,479	\$2,554	\$2,630	\$2,709
Real price increase per year (\$)	\$149	\$48	\$49	\$74	\$77	\$79
Real price increase per year (%)	6.7%	2.0%	2.0%	3.0%	3.0%	3.0%

## 8.4 New Customer Contributions

### At a glance...

- We will continue with the existing standardised rate for new customers to connect to water and wastewater services.
- We propose an increase of \$454 to be applied to new water and wastewater connections.
- The increase is due to the expanded capital investment to ensure services do not deteriorate as a result of forecast regional growth.

### Background

New Customer Contributions (NCCs) are the charges applied for new customers to connect to water and wastewater services. In developing PS2023, we have reviewed our charges in line with the ESC principles-based framework.

The review built on a detailed analysis we completed in 2019 and took into account pricing principles, supporting fairness between new and existing customers, and between geographic locations. It also considered reasonableness, such as the cost we would incur in servicing new connections.

South Gippsland Water currently applies standardised rates individually for water and wastewater across the region. We propose to continue with the existing standardised NCC rate across all new connections. This approach is to avoid the price shock to townships such as Poowong, Loch and Nyora under a localised model.

### Proposed NCC charge

Our region is experiencing significant residential property growth in some areas. We are committed to meeting the needs of this growth to ensure our services continue to provide for future generations. Our proposed capital program includes significant investment to secure future system capacity.

Using the ESC's Capital Contribution Model<sup>34</sup>, we propose to continue with a standardised NCC rate and implement an increase to \$2,971 across all new connections (an increase of \$454 for each water and wastewater connection to total \$5,942 per lot).

The proposed NCC increase is based on conservative capital investment forecasts and aligns the growth risk to South Gippsland Water.

We have informed developers<sup>35</sup> of the proposed change, inviting comment, and have received minimal feedback.

Revenue for the period is demonstrated in the table below.

Table 35: Proposed NCC contribution 2024–25 to 2028–29

\$ M	2023–24		2024–25		2025–26		2026–27		2027–28	
	#	Revenue	#	Revenue	#	Revenue	#	Revenue	#	Revenue
Water	351	\$1.04	364	\$1.08	364	\$1.08	349	\$1.04	349	\$1.04
Wastewater	356	\$1.06	369	\$1.10	369	\$1.10	353	\$1.05	353	\$1.05
Total		\$2.10		\$2.18		\$2.18		\$2.09		\$2.09

# - number of customers

### Pressurised systems

In addition to the New Customer Contribution, customers connecting to a pressurised sewerage system will remain responsible for onsite pumps, pipes, telemetry, other materials installation and inspection costs for connecting.

These costs are a direct pass through for the organisation with no price impact.

Table 36: Pressure Sewer Contribution 2024–25 to 2028–29

\$ M	2024–25	2025–26	2026–27	2027–28	2028–29
Capital expenditure	0.92	0.92	0.92	0.23	0.23
Contribution	(0.92)	(0.92)	(0.92)	(0.23)	(0.23)

<sup>34</sup> ESC's Capital Contribution Model

<sup>35</sup> New Customer Contribution correspondence

## 9 Financial Position

### At a glance...

- The proposed price path supports our progressive approach for a more sustainable long-term financial position.
- We have obtained an independent credit rating of BBB+.
- Further moderate price increases of 2.2% per year are predicted for 2028–29 to 2032–33.

Our proposed prices for 2023–24 to 2027–28 result in a sustainable financial position as demonstrated by the following financial indicators:

- a cash interest cover of 2.71 by 2027–28 to 2.21 by 2032–33 (alignment with statutory reporting inclusive of GST)
- the Net Debt to Gearing ratio is forecast to be 58.8% by 2027–28 and 64% by 2032–33.

The Board and Executive Leadership Team will continue to work with our partners in planning and delivering projects to incorporate further efficiencies in our practices. We are setting ourselves and our services up for future generations with a view to improve on financial sustainability over the longer term.

Further moderate price increases are predicted for 2028–29 to 2032–33 of 2.2% yearly. This is subject to increases from external factors such as construction costs, carbon management costs and other risks outlined in Chapter three, Risk.

South Gippsland Water obtained an independent credit rating assessment<sup>36</sup> in July 2022. The result is an improvement of the rating from BBB- to BBB+, an improvement of two levels. The revised Financial Accommodation Levy (FAL) rate has been factored in the financial indicators.

The following key financial indicators are presented noting that 2027–28 to 2032–33 is premised upon a further price increase, primarily due to the growth in the Regulatory Asset Base.

The Corporate Plan includes GST in the Operating Cash flows in calculating the cash interest cover.

Table 37: Corporate Plan Indicators 2023–24 to 2032–33

Indicators	Bench marking range	Fifth regulatory period					Sixth regulatory period				
		2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33
FFO interest cover (times)	> 1.5	3.5	2.9	2.5	2.6	2.7	2.8	2.6	2.4	2.3	2.2

Table 38: ESC Indicators 2023–24 to 2032–33

Indicators	Bench marking range	Fifth regulatory period					Sixth regulatory period				
		2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32	2032–33
FFO interest cover (times)*	> 1.5	2.6	2.2	2.3	2.2	2.4	2.3	2.1	2.0	1.9	1.8
Net Debt / RAV (Gearing) (%)	< 70	47.8%	51.8%	57.5%	58.2%	58.7%	56.8%	57.9%	61.4%	63.0%	63.8%
FFO / Net debt (%)	> 10	7.4%	5.6%	5.3%	5.2%	5.8%	6.0%	5.4%	4.8%	4.4%	4.1%
Internal financing ratio (%)	> 35	25.9%	22.1%	48.0%	52.2%	66.1%	33.2%	25.4%	33.4%	36.6%	35.5%

\*ESC Cash Interest Cover calculation excludes GST from Operating Cash flows

## 10 PREMO Rating

South Gippsland Water's 2023 Price Submission has been prepared to align with the Essential Services guidance for a Standard Rated Corporation under the PREMO Incentive mechanism.

Using the PREMO assessment tool we have assessed our PREMO rating as 'standard' as detailed below. The return on equity applied in the price model is 4.1%.

### 10.1 Performance

To what extent has the business demonstrated delivery of its customer outcomes commitment over the current regulatory period? Did its customers get what they paid for?	We have demonstrated we have delivered on the majority of our Customer Outcomes. We have provided explanations of major and minor shortfalls in performance, and activities to address these areas.
How does actual operating expenditure across the current period compare with the established benchmark allowance, and to what extent has the business rationalised any discrepancies?	We have provided a comparison of our operating expenditure to the benchmark allowance. Where there has been an increase from the benchmark allowance, we have provided explanation of the expenditure in terms of the impact on customer value.
How does actual capital expenditure across the current period compare with the established benchmark allowance, and to what extent has the business rationalised any discrepancies?	We have provided a comparison of our planned and unplanned capital expenditure. We have demonstrated the majority of our variance was with respect to unplanned programs on 'at risk' systems. We have provided an explanation of the basis for the expenditure and impact to customer value.
To what extent does customer sentiment demonstrate satisfaction in the business's performance over the current regulatory period? Are customers happy with the value they receive from their water business?	We have noted our continued strong performance in the ESC Customer Perceptions Surveys over the period. We have provided further analysis of our own annual survey process and demonstrated consistent strong performance in comparison to our Gippsland peers for satisfaction and value for money.
<b>Overall average 2 satisfied standard</b>	

### 10.2 Risk

To what extent has the business demonstrated a robust process for identifying risk, and how it has decided who should bear these risks? i.e. such that customers are not paying more than they need to.	<p>We have demonstrated a robust risk assessment process to identify and allocate risk, consistent with ISO 31000:2018. This is supported by:</p> <ul style="list-style-type: none"> <li>• business cases that are available for all major projects</li> <li>• Monte Carlo assessments and P50 estimates for all major projects</li> <li>• a process to identify, priorities and defer uncertain projects</li> <li>• we independently assessed our financial viability and demonstrated we can meet ESC benchmarks.</li> </ul> <p>We have demonstrated allocation in the balance of risk between South Gippsland Water and the customer, aligning to South Gippsland Water where possible.</p>
To what extent does the proposed guaranteed service level (GSL) scheme provide incentives for the business to be accountable for the quality of services delivered, and provide incentives to deliver valued services efficiently?	We have identified a gap in our Guaranteed Service Levels and introduced a new Water Quality grant process.
<b>Overall average 2.5 confident standard</b>	

### 10.3 Engagement

To what extent has the business justified how the form of engagement suits the content of consultation, the circumstances facing the water business and its customers?	We have undertaken a range of programs, aligned to the program purpose and audience.  We focused on key areas of importance and where customers could provide influence such as customer outcomes, capital investment, price path options and our service guarantee.
To what extent has the business demonstrated that it provided appropriate instruction and information to customers about the purpose, form and content of the customer engagement?	Engagement was completed in stages becoming more focused as the program progressed. This approach is consistent with figure 3.1, Customer Engagement Diagram provided in the ESC 2023 water price review, guidance paper.  Our program was developed early and had the ability to adapt to respond to customer feedback.
To what extent has the business demonstrated that the matters it has engaged on are those that have the most influence on the services provided to customers and prices charged?	Our program allowed time for feedback to be incorporated into the submission. We have tested our submission with our Community Advisory Panel and the community more widely through web-based surveys.
To what extent has the business explained how it decided when to carry out its engagement?	We have demonstrated the linkage between customer feedback, our customer outcomes and investment priority to deliver the programs
To what extent has the business demonstrated that its engagement was inclusive of consumers experiencing vulnerability?	We have completed a standalone process to engage with vulnerable customers and their support services. We have undertaken 77 specific in-depth interviews and have incorporated feedback on our support programs. In response to customer feedback we broadened the initial scope to include a dedicated study on support for small business customers.
To what extent has the business demonstrated that its engagement was inclusive of First Nations people?	Our engagement with First Nations people is ongoing and has continued through the PS2023 development process. We have incorporated key principles into our planning process.
Overall average 2 satisfied standard	

### 10.4 Management

To what extent has the business demonstrated how its proposed prices reflect only prudent and efficient expenditure?	We have sought to be prudent and efficient in our capital and operational programs.  We have included minimal variations in our baseline operating expenses.
To what extent has the business justified its commitment to cost efficiency or productivity improvements?	Our Capital program has been developed on best estimates and does not include any uncertain expenditure (see Chapter 6.3 Capital Investment)  We have proposed a 1.4% efficiency rate.
To what extent has the business justified or provided assurance about the quality of the submission, including the quality of supporting information on forecast costs or projects?	We have engaged external consultants to review our methodology, Price Submission, financial models and supporting documentation.  We have included methodologies for major opex cost categories, and demand forecasts are aligned with VIF.
To what extent has the business provided evidence that there is senior level, including Board level, ownership and commitment to its submission and its outcomes?	The Board has been actively involved in the development of our submission at an overall board level as well as within our Engagement and Planning Committee. The Submission development was guided by a staged process of Board review and approval.
To what extent has the business demonstrated its price submission is an "open book"?	We have referenced supporting documents throughout the submission and included these appendices in a summary table. All supporting documentation is available to the ESC and stakeholders. upon request.
Overall average 2 satisfied standard	



## 10.5 Outcomes

Has the business provided evidence that the outcomes proposed have taken into account the views, concerns and priorities of customers?	Our outcomes are broadly consistent with the levels of service we are delivered
Has the business provided sufficient explanation of how the outcomes it has proposed align to the forecast expenditure requested?	We have prioritised our programs to align with areas of importance and provided alignment of the key projects that will support customers.  All outcomes have been defined in a way to reflect the customer service or experience.
Has the business proposed outputs to support each of its outcomes, which are measurable, robust and deliverable?	Customers said that core services and reliability are most important. Our outputs reflect the agreed position for services not to deteriorate.
Has the business provided evidence that the outputs it has proposed are reasonable measures of performance against stated outcomes?	Measures and targets are clearly defined and aligned to existing reporting processes where possible. We have articulated the quarterly process to review and report on our Customer Outcomes internally and externally.
Has the business demonstrated a process to measure performance against each outcome and to inform customers?	We have demonstrated the specific targets that sit behind our performance monitoring against Customer Outcomes.
Has the business provided evidence that the outcomes proposed have taken into account the views, concerns and priorities of customers?	We have provided a connection between the views of our customers (gained through our engagement program) and the Customer Outcomes.
Has the business provided sufficient explanation of how the outcomes it has proposed align to the forecast expenditure requested?	Alignment to the forecast expenditure has been included in the Customer Outcomes table.
Overall score 2 satisfied standard	



# 11 Appendices

## Performance

- *SGW Detailed Performance Report 2018–19 to 2021–22*
- *Korumburra Sewer and Lagoon Upgrades – PBC 2021 to 2023*
- *Leongatha Wastewater Treatment Plant Upgrade Anoxic Zone – Business Case*
- *Water Main Renewals – Graham St, Wonthaggi & Bair St, Leongatha, Tender Reports*
- *Leongatha Filter Renewal Report*
- *2020–21 Insync Customer Satisfaction Survey*

## Risk

- *PS2023 Detailed Risk Report*
- *SGW Risk Management Framework*
- *SGW 2022 Urban Water Strategy*

## Engagement

- *Customer Engagement Process and Outcomes – SGW, September 2021*
- *SGW Community Engagement Strategy, 2021*
- *Pricing Review Findings Report, Max Hardy Consulting, May 2022*
- *Needs and Expectations of Vulnerable and Disadvantaged Customers, Bartley Consulting, 2019*
- *Understanding customers experiencing vulnerability, Phase 1, 2 and Small Business, Bartley Consulting, 2022*
- *Understanding the needs of small businesses experiencing vulnerability, Bartley Consulting, July 2022*
- *Insync Customer Satisfaction Survey*

## Guaranteed Service Levels

- *SGW Customer Workshop Inverloch, June 2022*

## Management

### Demand

- *Demand Analysis Report, 2022*
- *Victoria in Future (2021)*

### Operating expenditure

- *Sustainable Strategic Direction Review KPMG, 2019*
- *Operational Cost Baseline Review, 2022*
- *Benchmarking Report*
- *2024 Purchase of Bulk Entitlement Business Case*

**Capital investment**

- *SGW Prioritisation Tool – PS2023*
- *SGW Prioritisation for PS2023 Summary*
- *NTE-002 Cost Estimation Guidelines Information*
- *Wonthaggi Sewerage System – Capacity Upgrades to the Network – Business Case and Master Plan*
- *Wonthaggi Wastewater Treatment Plant Upgrade and Baxters Beach Outfall – Business Case*
- *Lance Creek Clear Water Storage Upgrade – Business Case*
- *Lance Creek Distribution System Augmentation – Business Case*
- *Lance Creek Water Supply Upgrade (BE Purchase) – Business Case*
- *Poowong, Loch and Nyora Water Augmentation – Business Case*
- *Venus Bay Outfall Upgrade and Renewal – Business Case*
- *Upgrading the Venus Bay Outfall – Cost Benefit Analysis*
- *Foster Wastewater Treatment Plant Upgrade – Business Case*
- *Leongatha Wastewater Treatment Plant Upgrades – Business Case*
- *Inverloch and Cape Paterson Wastewater Treatment Plant Upgrades – Business Case*
- *Foster WTP and Toora WTP Upgrade Works – Business Case*
- *Toora Water Treatment Plant Upgrade – Business Case*
- *Leongatha Water Supply Augmentation – Business Case*
- *Wonthaggi Water System Expansion – Business Case*
- *Korumburra Sewer and Lagoon Upgrades 2023–28 – Business Case*
- *Water Reticulation Main – Asset Class Plan*
- *Water Transfer and Distribution Main – Asset Class Plan*
- *Sewer Mains and Ancillary Assets – Asset Class Plan*
- *Water Treatment Plant – Asset Class Plan*
- *Wastewater Treatment Plant – Asset Class Plan*
- *Vehicles – Asset Class Plan*
- *IT Applications and SCADA Hardware and Software – Asset Class Plan*
- *Sewer Pump Stations – Asset Class Plan*
- *Plant and Equipment – Asset Class Plan*
- *SGW Prioritisation Tool Supporting Document*
- *SGW Prioritisation for PS2023 Summary*

**Price and Tariffs**

- *Water and Wastewater Tariff Study (2020)*

**New Customer Contribution**

- *ESC's Capital Contribution Model*
- *New Customer Contribution correspondence*
- *NCC Detailed Report*

**Other**

- *SGW PS2023 Financial Model*
- *Credit Opinion Correspondence Finch Ratings*

Supporting documentation will be provided upon request.