

Community Panel Response

Pricing Submission 2023-2028



Community Panel responses



Purpose

This document is to provide responses to questions raised by members of the Community Panel Day 2 on Saturday 26 February 2022.

Questions and responses

I appreciate that you provide a water cart to provide community water in heated community activity days. Are there be possible resources for organisations who have food shares and homeless outreaches such as the MADCOW café downtown in Bendigo who have provided showers for homeless and accommodations out at the scout camp every winter. Can you assist to lower their showering fees?

There is no formal program to provide assistance like this. However this type of observation or idea could help to form part of a recommendation from the panel.

Using recycled water in "purple pipes in new housing developments. This has started in Maiden Gully but I have heard it will not be continuing? Why is this so?

No Class A recycled water is provided through a purple pipe in Maiden Gully. It is provided to a number of sites, like Rosiland Park, the QEO and some schools. This water cannot be used for drinking. It has been provided to some new housing estates in the Epsom area. This is provided through negotiations with the land developer and increases the cost of the land in question. This is initiated by the developer who would need to approach us about this whilst in the planning stages of the development.

What further implementations can be made for water restrictions, do we need to have more permanent restrictions to increase our capacity to deal with drought?

Permanent water savings rules were introduced for the whole of the state after the millennium drought. These are a set of common sense rules designed to change behaviour towards certain potentially wasteful water uses. In the event of further drought there are different levels of water restrictions that can be introduced. The purpose of restrictions is to initiate behaviour change or curb water usage when it is in short supply.

How do we bring in 'ability to pay' considerations? (will be needed to cross subsidise the vulnerability funding)

We will consider the magnitude of any price increases and what the proportionate amount of support is for vulnerable customers. We want to make sure that those who have trouble paying are aware of the support that is available.

Who sets the non-negotiables - Coliban or the ESC? (community comment might assist the total process if not for this round maybe next time)

In preparing for the pricing submission, the Coliban Water Board and Executive Leadership Team consulted with senior management to determine what was negotiable and what wasn't. We exclude things that we have to do from a compliance perspective. We also took into consideration issues that we knew were important to customers based on our engagement and research.



Community Panel responses



What's the split of water use between agriculture, urban and environment? Therefore, how much difference urban water uses have in terms of 'saving water'

Coliban Water collects and stores water in the Upper Coliban, Lauriston and Malmsbury Reservoirs. We also have an 18% share of Lake Eppalock. Combined, we have a storage of 124,431 ML (megalitres).

Our bulk entitlement allows us to take an average annual volume of 50,260 ML per year from the storages, including 17,440 ML per year from Lake Eppalock, over any consecutive 3 year period.

In most years we have sufficient water to meet demand. But during prolonged dry periods there is less inflow and reservoir levels fall. During the Millennium drought, storage levels were as low as 7%. When there is a reduced availability of water there is less water to share and water savings become very important.

The bulk entitlement requires that we release 8 ML per day (up to 2,920 ML per year), of natural inflows from Malmsbury to the Coliban River.

Our rural customers are licensed to take up to 15,742 ML per year, although typically use is much lower. Rural use in 2020/21 was 3,081 ML. Rural use may be subject to lower allocations when there is reduced water availability.

Urban use in the Coliban Northern and Southern Systems was 14,992 ML in 2020/21.

Under Stage 1 restrictions, water savings are small (<5% of use), but under Stage 4 restrictions water savings could be 20% or more of typical use

We also have system losses from evaporation and leakage. We implement operating rules and undertake works to reduce these losses.

Why is the inflow so low during summer even when high rainfall?

Inflow is low during the summer because the catchment is dry and rainfall received soaks into the soil or is evaporated. Runoff occurs when there is more water than land can absorb. On average less than 10% of our inflows occur in the December to June period.

Too many 'farm dams' are lifestyle dams as the upper catchment shifts to non-productive land use - govt has little/zero appetite to tackle this. Does CW have to be advised of any new farm dams?

Coliban Water does not approve farm dams this is done by Goulburn Murray Water. No, Coliban water do not have to be advised of any new farm dams.

Visit <https://www.water.vic.gov.au/water-for-agriculture/taking-and-using-water/private-dam-licensing> for more information on farm dams.



Community Panel responses



Jessica Saigar mentioned GREATER WESTERN evenly recovers their debt over 100 years, 1% per year. Is that a framework Coliban Water can adapt?

From 2016 to 2020, Coliban Water responded to a financial challenge by reducing capital expenditure and actually repaying debt (approx. \$4million per year). This coincided with stable or falling prices since 2017.

While financial performance ratios have improved in the last decade, we do have a capital backlog that we need to address. This will require significant capital expenditure that is more than double our \$40 million target for this year, or more than \$400m over the 2023-2028 period. It is true that for all water entities (and all businesses generally) that have higher prices now leads to lower debt in the future, and ultimately lower prices.

The assumption within the government regulations is that new assets (capital expenditure) are part funded by long term debt and part funded by prices each year. This means our revenue should include a cash surplus to partially pay for new assets. The benchmark figure for calculating a rate of return is 60% debt funding of assets. This is not mandatory, it is just an assumption. Greater Western Water provided an example of an asset of (approximately) 100 years life being recovered over (approximately) 100 years. In the City West Water 2020-21 Annual Report, however, it incurred new borrowings of \$122m to partially fund \$20m of government dividend and \$159m of capital expenditure, with the rest funded through prices.

While the aspirational target is for the costs of all new assets to be funded over their asset life, cash flows must be generated through prices to offset some of this new capital expenditure each year. If this does not occur, then Coliban Water would not be meeting required financial performance levels and future prices would have to increase significantly for future generations.

The heart of Intergenerational Equity, based on the Bill Simulator, is to what extent are customers today willing to accept a price increase now to avoid future price increases (and higher interest and debt levels).

If hardship funds are under utilised is the funding re-appropriated? You mentioned 'reprioritised'. Would like to see some of that money used rather than put it into the general bill increase, could it not be reprioritised money?

This is not part of the current framework, however it is open to the panel to make a recommendation about re-purposing under utilised hardship grants to other initiatives or to offset general price increases.



Community Panel responses



Will the projected additional charges cover the anticipated increase in demand on CW's hardship funding? (How is future demand estimated?)

Coliban Water assumed additional hardship support for our customers via a targeted pool of funds. As outlined on Saturday, these funds have not been fully utilised so far this regulatory period. At the highest decision point in Question 4 in the Bill Simulator, it was assumed that hardship grants of \$3m per year would be funded with a general price increase. Based on any final recommendation of the panel, we can tailor a hardship program to fit the desired recommendation. This may include broad financial assistance to all customers with a concession card or experiencing financial vulnerability, pending the funding available for such a program.

Do Coliban and the State Government have any clear understanding between them as to whether, or not, any debt raised via TCV is to be repaid?

No. Like most large businesses, and like other water, energy and gas companies, debt is an important funding tool. If we wanted to spend (hypothetically) \$80m in capital expenditure in a single year and this was all funded by prices, then each household would incur a standalone \$1,000 charge for capital works that will be useful for decades. There is no government expectation that Coliban Water's debt is repaid in any particular timeframe, although we have an obligation to ensure we have sufficient funds to pay our suppliers' bills when we receive them.

How does Coliban propose to fund the repayment of the Principal component of the current debt of about \$400m, plus the expected \$500m to be borrowed over the next (say) 5-7 years?

Our intention is to partially fund capital expenditure through available cash (prices) and partially through debt (future prices). The extent of this will depend on the price increases adopted and is why this significant challenge has been put to the panel. Of approximately \$500m capital expenditure, approximately \$300-\$350m will be debt funded and the other \$150-\$200m will be funded through prices.

With long-lived assets such as infrastructure, most loan periods will not extend to the end of the asset's life (e.g. can you borrow for 100+ years for the Superpipe?)

We cannot take out a loan with 100 years duration. The model assumes borrowing for 10 years and then rolling over debt after that. The return on assets is based on 60% of capital costs being debt funded and 40% funded through equity (cash flows). Therefore, over time our debt will increase by less than we're spending in capital. However, there is some discretion as to the extent of this which is why we've put this to the panel.



Community Panel responses



What are Coliban's expectations for asset renewal/replacement/extension over the following 20, 50, 100 years, and when?

There are three main drivers in our capital forecasts. Note that all capital expenditure is variable and cannot just be delivered in smooth amounts from year to year.

1. Renewals: We have \$2b of assets and these need to be renewed/replaced when their useful life ends. Approximately \$15 - \$30 million per year.
2. Growth: As our customer base grows, so do our assets. If customer growth is approximately 1.9% per year, then we will need to spend \$38 million a year providing new assets to customers (noting some of this could be funded by developers).
3. Improved Service: To meet tightening government regulations and customer expectations, we need to invest in new assets beyond growth or renewals. This includes spending \$46 million at the Bendigo sewage treatment plant to ensure we can meet regulatory expectation and growth requirements.

While the future will be driven by technological advancements and as yet unknown levels of population growth, we note the need for us to be investing approximately \$60-70 million in our assets each year, excluding new or generational projects.

We routinely do planning for 20-30 years, and for water resources 50 years. However, we do not plan for 100 years as this would be too uncertain. (Imagine trying in 1920 to plan assets for Bendigo in 2020!) However, we do ensure assets that go into the ground (i.e. water and sewer pipes) and very long life spans, generally in excess of 70 years and in some cases life spans over 100 years.



Community Panel responses



PANEL QUESTION: Can Jarrah walk us through how the additional price increases for each of the four topics were calculated?

Please refer to the Bill Simulator Link as you review the following answers:

<https://secure.insyncsurveys.com.au/surveys/ColibanWaterBillSimulator/>

Question 1: Intergenerational Equity

Price levels were determined by looking at different rates of cost recovery to achieve price increases by 2028, and then by using a similar set of assumptions in all four scenarios to establish estimated prices in 2048. For context, Coliban Water's revenue will be \$15m higher by 2028 for the "as much as possible price rises" compared to the "as much as possible with debt". This is significant, although it comes at the cost of higher prices in the coming 5 year period. Note there is a degree of forecasting in looking out a generation, but what is factual is that the higher prices and less debt we finish the period with in 2028, the lower prices will be in 2048.

Quarterly Bill impacts

Simulator option	Descriptor	Quarterly bill impact (Owner)
#1	<i>Fund as much as possible with debt to delay price rises</i>	\$16.64 (5.0%)
#2	<i>Fund almost as much as possible with debt</i>	\$24.95 (7.5%)
#3	<i>Fund mostly with debt</i>	\$33.25 (10.0%)
#4	<i>Fund more through price rises</i>	\$41.58 (12.5%)
#5	<i>Fund as much as possible with price rises</i>	\$49.86 (15.0%)

Question 2: Community Contributions

Coliban Water currently contributes to community focussed programs across a wide variety of sectors. These include:

- **Water bubblers:** We pay for the permanent water bubbler units in parks and gardens, and councils undertake the installation and maintenance in the park after installation. Cost is approximately \$50,000 per year, but councils need to then maintain the units.
 - o *Future:* We could increase the number we make available to councils, undertake maintenance (so councils are more willing to receive the units) and not charge councils for water usage at fountains. This could cost approximately \$100,000 per year.
- **Community events:** We own water trailers and temporary bubblers that we provide to community events including fun runs, large sporting events and charity events. Including temporary installation and relocation, this costs approximately \$40,000 per year for the provision of water to 100 events.
 - o *Future:* We could increase the number we own and provide these services more widely. Pre-COVID, we had to restrict the units and "share" them so that a variety of community groups benefitted. The cost could therefore double.
- **Water bottles:** We currently purchase reusable water bottles to provide for community sponsorships and education programs, promoting the benefits of "Choose Tap". The cost of this is approximately \$20,000 per year
 - o *Future:* We could expand the scope of the program, providing more branded reusable water bottles to schools, kindergartens and community groups. We could spend significantly more on this, limited by customer willingness to pay through prices.

Community Panel responses



- **Refiller program:** Promotion of hospitality venues where customers can re-fill BYO water bottles. This program had to be deferred due to COVID
 - o *Future:* Potential commencement of the project post COVID, at a cost of approximately \$2,000 to \$5,000 per annum
- **Recreational Water Discounts:** We currently provide a discount of up to ~\$300,000 per year to councils for maintenance of green spaces and continued investment in water efficient infrastructure. This directly rebates councils' water bills and promotes sustainable infrastructure, but comes at a cost of our customers' water bills.
 - o *Future:* This program could be retained, expanded or scrapped.
- **Council support:** We currently provide assistance upon request to councils where they are seeking to investigate alternative water supplies for botanic gardens or mandate recycled water to certain growth areas. This contribution includes both in-kind staff time and occasional project contributions (~\$10,000).
 - o *Future:* This program could be expanded so that we're actively outreaching to councils to upskill them in water sensitive design, including assistance with Trentham stormwater modelling. These tasks would be fast tracked via the employment of a new dedicated staff member(s), including a focus on swimming pools, sporting grounds and public parks and gardens.
- **Sustainability groups:** We have worked with local community groups for a variety of ecological purposes, including contributing to a platypus study in Campbell's Creek, Nest Boxes at Spring Gully reservoir and crossing points for kangaroos so they don't get stuck in our raw water channels. These are provided by staff at low cost within current budgets.
 - o *Future:* We could ramp up our investment in ecological services, including provision of bird hides at Epsom and improving wildlife corridors along our channels and waterways. The cost of this could range from a few hundred dollars to many thousand, and would be strongly progressed by utilising the time of a new dedicated staff member.

In addition to this, we also contribute to other community benefits, including our community education program which we are required by regulation to maintain. However, the above list provides a good summary of programs that can be expanded or contracted as required.

The difference between the first point "Reduce Coliban Water's Role" and "Take a Lead Role" is approximately \$2m per year, by 2028. A highly extensive and beneficial Community Contribution program could be developed for this increase in prices, and alternative programs could be developed for any funding level desired by the panel.

Quarterly Bill impacts

Simulator option	Descriptor	Quarterly bill impact (Owner)	Annual cost of program (change)
#1	Reduce Coliban Water's role	-\$0.45 (-0.1%)	-\$100,000
#2	Maintain current involvement	\$0.00 (no change)	Nil
#3	Take a larger role	+\$1.35 (+0.4%)	+\$300,000
#4	Take a lead role	+\$4.89 (+1.5%)	+\$1.2 million

Community Panel responses



Question 3: Drought Response

We know that the likelihood and severity of water restrictions will increase as climate change continues to bite (noting, we are already dealing with significant impacts of climate change). It is hard to choose the “right” amount of customer money to spend on drought mitigation because it is ultimately a judgment call made with imperfect information. We have provided a range of estimates within the Bill Simulator. These range from a “BAU” level of significant drought mitigation right through to a major investment program connecting southern towns (potentially, Castlemaine and Kyneton) to the Bendigo network and the purchase of significant new water entitlements. Middle options could include groundwater investments for towns such as Trentham and Goornong. Across all options could be the cost of reconfiguring our networks to enable more efficient supply, and significant investment in recycled water treatment plants and pipelines to support green spaces in times of drought, promoting the attractiveness of central Victoria.

Quarterly Bill impacts

Simulator option	Descriptor	Quarterly bill impact (Owner)	Annual cost of program (change)
#1	Much higher chance of water restrictions during droughts	\$0.00 (no change)	Nil
#2	Higher chance of water restrictions during droughts	\$0.36 (+0.1%)	+\$80,000
#3	Use of groundwater in some towns to avoid/delay water restrictions	\$0.90 (+0.3%)	+\$250,000
#4	Slightly lower chance of water restrictions during droughts	\$1.80 (+0.5%)	+\$500,000
#5	Lower chance of water restrictions during droughts	\$5.39 (+1.6%)	+\$1.2 million
#6	Lowest chance of water restrictions during droughts	\$17.98 (+5.4%)	+ \$4 million

(Note that an annual cost of \$4million would be sufficient to fund interest costs of approximately \$100 million in capital expenditure).

Community Panel responses



Question 4: Vulnerability Support

The amount of money that we spend on customers experiencing vulnerability (including family violence), is a major question of judgment. There is no right or wrong. While we are morally and legally compelled to offer some form of assistance, we have significant discretion in framing a program to suit any budget. This may include:

- Automatic enrolment of concession customers within our hardship program (suitable for \$1m per year or more – this could provide bill relief of \$30 to each concession customer offsetting other price increases).
- The Panel recommending that any under-spent hardship grants are returned to the general customer base each year in terms of lower bills. This will ensure that customers do not pay for programs we cannot deliver.

Simulator option	Descriptor	Quarterly bill impact (Owner)	Annual cost of program (change)
#1	<i>Reduce support</i>	-\$0.34 (-0.1%)	- \$142,500
#2	<i>Maintain current level of support</i>	\$0.00 (no change)	Nil
#3	<i>Double support</i>	+\$0.68 (+0.2%)	+ \$285,000
#4	<i>Increase support to \$1 million per annum</i>	+\$1.71 (+0.5%)	+ \$0.7 million
#5	<i>Increase support to \$3 million per annum</i>	+6.48 (+1.9%)	+ \$2.7 million