

»»» New Customer Contributions Revised proposal summary

May 2023

Price Submission 2023-2028



New Customer Contributions



Our revised proposal

Our context

Coliban Water has several key challenges that we need to address so that we can continue to provide high quality services to our communities now and into the future. Many of our assets are ageing and need renewal. Climate change is impacting our region and we need to invest to ensure we have reliable water security. Our population is growing as more people move to our region to share in our great lifestyle.

We need to strike the right balance between what customers pay today and what debt we pass onto to future generations. The important question is *'How do we prepare for tomorrow, while being fair to customers today?'*

We are planning to increase capital expenditure in the next pricing period (2023-2028) to respond to these major challenges. Growth Capital Expenditure (GCE) is set to increase significantly compared to historical levels.

In Bendigo, the primary water supply point is located at Sandhurst Reservoir, and the main receival point for sewage is at Epsom.

It is efficient to provide water and sewer services to a city in a valley centred around the Bendigo Creek – natural gravity is sufficient for the optimal provision of both water and sewer services.

However, in recent years the Bendigo Creek valley has become increasingly full and little large-scale residential development remains.

Development is occurring to the north (Huntly), east (Strathfieldsaye) and west (Maiden Gully and Marong). As growth radiates outwards, we incur capital costs for asset upsizing right along the networks, as well as upgrades at storages and treatment facilities. Required pump stations also add to operating costs and carbon emissions.

During the last five years, the towns of Echuca, Castlemaine, Kyneton and Trentham have grown in response to COVID-19 and we have implemented strategic growth plans in these towns. This is necessitating upgrades to treatment facilities.

Our submission

As a result, we're proposing to increase the level of New Customer Contributions (NCCs). As the level of GCE increases, it becomes more unsustainable to pass these costs on to existing customers.

This is a theme we received strong feedback on during the extensive customer engagement that shaped our 2023-2028 Price Submission.

Following the engagement process, we are proposing that, for the first time, we will have all shared pump stations now included within NCCs. Furthermore, any developer that needs to build their own sewer pump station to service their own development will receive a partial rebate on their sewer NCCs, up to a maximum of \$1,500 per lot. And if we fail to deliver the sewer GCE that we're committing to, we will rebate the level of NCCs we charge all developers.

Our response

The Essential Services Commission (ESC) draft decision required us to reconsider various elements of our NCC proposals. This includes the differentiation between greenfield and infill areas, and the degree to which we phase in the required increases in NCCs.

In response to the draft decision, we participated in the ESC's public forum where we continued dialogue with developers. We then reconsidered our financial modelling and held one-on-one meetings with developers and consultants, independently facilitated by engagement experts, Insync. We also held a forum with our Customer Advisory Groups to seek their input, and we discussed the need for cost reflective developer charges with the Consumer Action Law Centre.

In recognition of feedback received, we revised our approach. We are proposing to increase the rate at which water NCCs increase so that the transition to full cost for water is achieved in the next pricing period. We are also introducing lower fees for small developments in infill areas.

Engagement summary

Timeline

August 2021: Pre-engagement survey

On 4 August 2021 we sent out a preliminary survey to help us design and develop content for future conversations with the land development community, helping identify key issues for engagement.

November 2021: Land development workshop

On 23 November 2021 we held a forum with developers and consultants to share information and had some great discussions and received some valuable feedback.

October 2021 to April 2022: VicWater research project

Between October 2021 and April 2022, VicWater led a project to look at an industry-wide approach to calculating New Customer Contributions.

June 2022: Developer information sessions

Between 21-23 June 2022, we held information sessions with developers to discuss what the outcomes of the VicWater research will mean for pricing and service.

July 2022: Post information session survey

On 19 July 2022 we sent a survey to everyone to get feedback from people who couldn't attend the information sessions.

August 2022: Additional information session

On 4 August 2022 we held an additional session to discuss options for how New Customer Contributions could be calculated and charged.

August 2022: Options survey

On 4 August 2022 we distributed a survey for key developers to vote on a preferred option for New Customer Contributions, as agreed at the additional information session.

September 2022: Information pack

On 14 September 2022 we provided a pack containing additional information, and sought further input on part of our final position to developers.

April 2023: ESC draft decision

On 11 April 2023 the ESC provided a preliminary response in relation to our proposed Price Submission.

April 2023: Engagement with ESC

In late April 2023, we have worked closely with the ESC to discuss and understand the draft decision.

May 2023: ESC Public Forum

On 1 May 2023 the ESC hosted a public forum at Bendigo Library, with people participating in person and online.

May 2023: Additional engagement with developers

Between 1-5 May 2023 we spoke to developers about the draft decision and the need to provide them with additional information, and obtain feedback.

May 2023: Customer forum

On 4 May 2023 we engaged with our Customer Advisory Group members -about NCCs and their impact on the broader customer base.

Where we are now

May 2023: Provide response to stakeholders

On 15 May 2023 we will hold a meeting for key developers and customers to share our revised proposal and response to the ESC.

Provide response to the ESC.

May 2023: Submit revised proposals to the ESC.

We will formally submit our revised proposal to the ESC.

Close the loop

We will continue to communicate with our customers and stakeholders when the ESC has released its final decision on our Price Submission.

Ongoing engagement

We will hold annual forums with the development community providing information regarding the delivery of growth capital expenditure within the year.





What are New Customer Contributions (NCCs)?

A New Customer Contribution is a contribution toward the cost of the operation, maintenance and growth of our drinking water, sewerage and recycled water networks.

NCCs are a one-off, up-front charge applied to all new allotments connected (or to be connected) to Coliban Water networks. NCCs require the owner to contribute costs for the supply of water, sewer or recycled water networks (as applicable) to account for the increase in use of these services resulting from additional lots or further development of existing lots.

The charge reflects the cost of connection for new customers, particularly in new development areas (known as greenfield), for water corporations to provide assets. Pumps and pipes are very expensive, especially where large distances need to be covered to connect new customers to existing networks.

For a customer-funded organisation like Coliban Water, NCCs are critical to support growth in our region and ensure fairness where developers that create new lots, whether small lots or large-scale sub-divisions, pay their fair share of the costs required to service these new lots.

How are NCCs calculated?

Before 2013, NCCs were set at an arbitrary level across Victoria. However, since then water corporations have been allowed to propose different levels based on their own costs. The ESC is then responsible for approving the water corporations' proposed prices.

NCC calculations include growth-related capital projects or those with a component attributable to growth. These include upgrades to existing infrastructure such as treatment facilities, trunk infrastructure and occasional augmenting (upsizing) of assets provided by developers as part of their provision of services to new developments.

The current model for calculating the levels of NCCs - Net Cash Flow (NCF) - uses a combination of future capital expenditure, past capital expenditure, future prices, future water consumption, future inflation, future operating costs and future efficiency rates.

As part of our Price Submission preparation, we participated in an industry review led by VicWater, focused on assessing the appropriateness of the current NCF model. The review considered different options to manage the uncertainty surrounding future growth, but also established a pricing methodology that better meets the principles outlined by the ESC and is consistent with customer expectations.

The VicWater review considered nine options as alternative approaches for the setting of NCCs. Each of these options, including the current NCF approach, was qualitatively assessed against the following seven assessment criteria:

- Regulatory consistency
- Revenue adequacy
- Efficiency
- Equity
- Ease of understanding
- Flexibility
- Administrative costs

The Average Incremental Cost (AIC) option was identified as the preferred option on the basis it scored the highest across the assessment criteria.

Current NCF model verses proposed AIC model

	Benefits	Limitations
Net Cash Flow (NCF) method Current approach	• Maintain status quo in methodology (but not outcome). • Low administrative cost. • Pre-approved use of this model by the regulator.	• Can include sunk assets in the calculation. • Complex to understand and communicate. Model is not intuitive. • Can generate NCCs that are not reflective to the level of growth-related expenditure being delivered. • Model highly sensitive to changes in various inputs.
Average Incremental Cost (AIC) method Proposed approach	• Provide developers with efficient pricing signals & incentivise efficient development decisions. • Clear alignment of incremental costs associated with the connection and excludes sunk assets from the calculation. • More intuitive, providing greater clarity to developers. • Greater fairness for all customers, reducing the level of cross subsidies. • Cost reflective.	• A new model, although it has completed 12 months of testing and review. • Takes capital expenditure as the primary driver of NCCs. • Not the ESC's current calculation methodology.

The Average Incremental Cost (AIC) approach

The proposed AIC based NCC is a direct cost approach based on the average incremental costs of connection. Through the planned implementation of this model, key features in our new NCC framework will include:

- Standard NCCs based on connections reflective of high growth capital expenditure.
- Separate NCCs for water and sewer based on the costs of each service.
- Separate NCCs for recycled water, capped at 50 per cent of the water rate, to incentivise new recycled water connections.
- Inclusion of shared sewer pump stations within the Sewer NCC.
- A discount to the Sewer NCC where a developer needs to build a sewer pump station that is standalone for their development.
- Inclusion of budget for 'link-ups' of water networks, so developers don't need to pay for all legacy link-up issues.
- Support for infill development through a new small lot charge that will apply throughout our region, excluding growth areas around Bendigo.
- Introduce a sewer Growth Capital Expenditure Guarantee, which will see a 20 per cent rebate provided for sewer NCCs in the year following where we have not reached 80 per cent of our planned expenditure.
- Capping any annual increase at 20 per cent per annum for water, sewer and recycled water. This differs from our initial proposal and was decided to balance the various feedback we received during final customer and developer engagement.

NCCs under this approach are set based on the net present values of a 20 year forward estimation of costs and growth. As prices are set every five years, we will commence a review into NCCs in 2026-2027 that will determine the level of NCCs to apply from 2028-2033.

This will ensure that NCCs continue to reflect the capital expenditure required in our investment programs.

Proposed increase to New Customer Contribution charges from 1 July 2023

Our population is growing, our existing assets are ageing, and our climate is changing. To address these challenges, we are planning for a *Big Water Build*, with a planned capital program of \$435 million over the next five years.

We have proposed a price increase across our entire customer base to help fund this investment.

Since 2018, we have invested \$45 million of customer money in assets to support new suburbs, new development and regional growth, but only collected \$23 million in NCCs.

The new NCC approach will ensure we continue to meet the needs of our growing customer base and share the costs of new infrastructure with those set to benefit from the infrastructure.

As we implement a new NCC approach, we will transition to higher charges over several years to reduce the sudden impact on the development community. This acknowledges that many developments take several years from start to finish and provides a fairer opportunity for developers to plan and budget for the changes.

The transition aims to also reduce the cross subsidies incurred by existing customers as time progresses.

Infill vs Greenfield development

We recognise the ESC's concerns regarding NCCs accounting for differences in the cost of development between infill and greenfield sites, essentially small lot subdivisions compared to large-scale multi-lot subdivisions. We held an engagement session with our Customer Advisory Groups to explore this issue further. Of the 20 customer representatives who participated, the majority supported a separate NCC for infill areas.

We are proposing a new Small Lot Infill NCC for water, sewer and recycled water for lots of no greater than 450sqm. These lots account for approximately 24 per cent of our current created lots.

The following criteria apply to our Small Lot Infill NCC:

- Area of each lot less than 450sqm.
- No more than two new created lots (that is, 1 lot into 2, or 1 lot into 3).
- Not located in the five greenfield growth areas identified – Maiden Gully, Strathfieldsaye, Marong, Huntly and Bagshot; and
- Excludes scenarios where un-serviced lots are being created as part of the subdivision.

This revised approach balances feedback received from customers and developers as we propose to introduce a new lower Small Lot Infill NCC that comply with the above criteria. For the Small Lot Infill NCC, we are proposing to only increase the level of NCCs by inflation through to 2028.

What's changed?

Original NCC proposal	No distinction between infill and greenfield development.
Revised NCC proposal	A lower Small Lot Infill NCC that provides distinction between infill and greenfield development. For water, sewer and recycled water that complies with the Small Lot Infill NCC criteria, fees only increase with inflation for the next pricing period.



Proposed NCCs for 2023-2028

In our Price Submission, we proposed to phase in the increase in NCCs, which would smooth the impact for land developers and property owners planning to sub-divide their land.

Sewer NCCs

The proposed level of Sewer NCCs is capped at 20 per cent increases per annum, as outlined in the table below:

(excluding inflation)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Sewer NCC – standard	\$1,790	\$2,148	\$2,577	\$3,092	\$3,711	\$4,453
Sewer NCC – discounted (min)	N/A	\$648	\$1,077	\$1,592	\$2,211	\$2,953
Sewer Infill NCC <450sqm, 2-3 lot subdivision	\$1,790	\$1,790	\$1,790	\$1,790	\$1,790	\$1,790

In accordance with feedback from the development community, we propose that shared sewer pump stations will now be fully funded by Coliban Water with the cost being recouped through these NCCs.

Where a private pump station needs to be built by a developer to service their own land, we will charge a discounted Sewer NCC up to \$1,500 less per lot compared to the standard fee. So, while the level of NCCs is increasing, there are additional inclusions to ensure a fairer playing field for developers.

What's changed?

Original NCC proposal	Sewer NCC will increase by 20 per cent each year, before CPI.
Revised NCC proposal	Remains as originally proposed (20 per cent increase per year), with inclusion of an additional small lot NCC.

Water and Recycled Water NCCs

The proposed level of Water NCCs is also increasing at 20 per cent per annum. However, when the Water NCC reaches the cost recovery amount determined within the model, the Water NCC will remain at the same level in real terms (only increasing with inflation):

(excluding inflation)	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Water NCC	\$1,790	\$2,148	\$2,577	\$3,092	\$3,597	\$3,597
Water Infill NCC <450sqm, 2-3 lot subdivision	\$1,790	\$1,790	\$1,790	\$1,790	\$1,790	\$1,790
Recycled Water NCC	\$895	\$1,074	\$1,289	\$1,476	\$1,476	\$1,476

Originally, we had proposed that Water NCCs would increase by 20 per cent in 2023-24 then 10 per cent per annum, excluding inflation. Through further engagement with the development community and our broader customer base, there was a view to see full costs be recovered sooner. We have adjusted the transition rate to be in line with the sewer NCC at 20 per cent per annum until the full cost of the NCCs is reached in 2026-27.

Continuing the current approach, Recycled Water NCCs will continue to be set at a level of 50 per cent of the Water NCC until the cap is reached in 2025-26.

What's changed?

Original NCC proposal	Water NCC will increase by 20 per cent in 2023-24, then 10 per cent each year, excluding inflation.
Revised NCC proposal	Water NCC to increase in line with sewer NCC (20 per cent increase per year) until actual cost reached, excluding inflation

Growth Capital Expenditure (GCE) Guarantee - Sewer

While the NCCs outlined above will partially fund the expanded capital program, most of the program will continue to be debt funded and paid for by existing customers.

We recognise that with the increased NCC levels, we also have a heightened responsibility to provide assets that service growth – now and in the future.

We have proposed to invest the following levels of sewer GCE. For each year, we can calculate the proposed period to date sewer GCE.

Base Case Plus Rebate	2023-24	2024-25	2025-26	2026-27	2027-28
Sewer GCE	\$9.3m	\$11.0m	\$11.8m	\$11.1m	\$12.0m
Sewer GCE period to date	\$9.3m	\$20.3m	\$32.1m	\$43.2m	\$55.2m

For example, our proposed 2023-24 Sewer GCE is \$9.3 million (excluding inflation). Our sewer GCE guarantee is that if we underspend on our sewer GCE by 20 per cent or more (delivering less than 80 per cent of sewer GCE), we will provide a matching rebate to sewer NCCs of 20 per cent in the following year.

The GCE guarantee would work as follows:

2023-24	NCCs will be \$2,148 (no rebate) OR as low as \$648 (full private pump station rebate)				
2024-25	If Sewer GCE	In 23-24	<80% proposed GCE	(\$7.5m)	We will rebate 2024-25 Sewer NCCs by 20%
2025-26	If Sewer GCE	In 23-24 and 24-25	<80% proposed GCE	(\$16.3m)	We will rebate 2025-26 Sewer NCCs by 20%
2026-27	If Sewer GCE	From 23-24 to 25-26	<80% proposed GCE	(\$25.7m)	We will rebate 2026-27 Sewer NCCs by 20%
2027-28	If Sewer GCE	From 23-24 to 26-27	<80% proposed GCE	(\$34.6m)	We will rebate 2027-28 Sewer NCCs by 20%
2028-29	To be proposed in our Price Submission 2028.				

Note that all figures in the above table exclude inflation.

As the GCE guarantee is introduced in conjunction with higher NCCs, the GCE guarantee will not apply to the Small Lot Infill NCC as this will be already significantly lower than the standard sewer NCC by 2024-25.

What's changed?

Original NCC proposal	A sewer GCE Guarantee rebate is provided if we do not meet our capital investment targets each year.
Revised NCC proposal	Remains as originally proposed (GCE guarantee included).

Forecast growth rates

For planning purposes, the long-term rate of growth is generally assumed. This is calculated over twenty years. The short-term growth rates are also included below as a comparison.

Town	Water Growth Rate		Sewer Growth Rate	
	Long-term	Short-term	Long-term	Short-term
Axedale	2.8%	5.8%	3.5%	6.8%
Bendigo	2.2%	1.7%	2.3%	2.2%
Castlemaine (incl Harcourt)	1.4%	1.8%	2.8%	2.3%
Kyneton	1.8%	1.7%	3.0%	2.2%
Trentham	3.4%	3.7%	4.0%	4.9%
Echuca	1.8%	1.4%	1.9%	1.7%
Cohuna	1.0%	1.3%	0.7%	1.1%
Goornong	1.1%	2.0%	NA	NA

Key capital projects

The key capital projects that have been costed and included in the next pricing period are listed below.

There are a range of reasons these projects have been selected as part of our capital delivery portfolio for the next five years, with *catering for growth* a key driver. These projects have been fully factored into the proposed NCCs.

Further to the feedback received from the development community, we have outlined the growth component of these projects to help provide a better understanding of how the NCCs have been calculated. Our website includes proposed growth capital projects in key greenfield areas so that developers and customers can have confidence in our plans.

Where the primary driver for the project is growth, the full cost of the project has been included in the NCC calculation. Examples include water pipe upgrades in Marong and Maiden Gully. Projects like this would not be needed if there was no growth.

One exception is the Trentham Water Treatment Plant. In response to developer feedback, we acknowledge the community will benefit from the provision of a newer treatment plant and, therefore, only a proportion of the costs have been assigned to the NCC.

Where there are multiple drivers for upgrades, the majority of the cost is assigned to existing customers. Across our remaining portfolio of \$336 million, only \$41 million of projects with a primary driver other than growth are assigned to NCCs. In order to reflect the influence of growth, the percentage adopted is proportional to the growth rate in the relevant area. In those areas where the growth is less than 1 per cent per annum, no cost of the project has been applied to NCCs.

Our program includes the following growth-related capital expenditure:

- \$91 million in the 2023-2028 pricing period
- \$162 million in the 2028-2033 pricing period; and
- \$27 million beyond 2033.

This revised proposal will see us collect \$39 million from NCCs in the next pricing period. The remaining amount will be funded from existing customer bills and debt.

Capital expenditure attributable to growth in each of the next two pricing periods:

Sewer Capital Projects	2023-2028			2028-2033		
Project Name	Capital cost	Cost in NCCs	% Growth	Capital cost	Cost in NCCs	% Growth
Developer Shared Assets - Sewer	\$7.9 m	\$7.9 m	100%	\$15.6 m	\$15.6 m	100%
SCADA Hardware	\$3.3 m	\$0.1 m	3%	\$6.4 m	\$3.2 m	50%
Sewer Network Renewals	\$12.1 m	\$0.3 m	2%	\$23.9 m	\$1.2 m	5%
Water Reclamation Plant Renewals	\$20.4 m	\$2.9 m	14%	\$40.4 m	\$12.1 m	30%
Integrated Water & Sewer Planning - sewer	\$3.2 m	\$3.2 m	100%	\$6.3 m	\$6.3 m	100%
Sewer Network Growth	\$4.5 m	\$4.5 m	100%	\$8.9 m	\$8.9 m	100%
Sewer Network Improvements/Compliance	\$19.4 m	\$2.0 m	11%	\$38.3 m	\$11.5 m	30%
Water Reclamation Plant Growth	\$1.3 m	\$1.3 m	100%	\$2.5 m	\$2.5 m	100%
Water Reclamation Plant Improvements/Compliance	\$14.4 m	-	-	\$28.5 m	\$8.5 m	30%
Bendigo Trunk & Outfall Sewer Growth & Compliance Upgrade	\$26.3 m	\$5.8 m	22%	\$20.7 m	\$4.6 m	22%
Bendigo Water Reclamation Plant Upgrades & Tertiary Filter Expansion	\$14.6 m	\$7.3 m	50%	\$36.2 m	\$18.1 m	50%
Bendigo WRP Sludge Handling Upgrade	\$52.7 m	\$10.5 m	20%	-	-	-
Castlemaine WRP Upgrades	\$25.3 m	\$3.5 m	14%	\$15.3 m	\$2.1 m	14%
Cohuna WRP Capacity Increase	\$8.9 m	\$0.9 m	10%	-	-	-
West Bendigo Sewer Growth & Compliance	\$25.2 m	\$5.0 m	20%	\$9.9 m	\$2.0 m	20%
	\$239.2 m	\$55.2 m	23%	\$252.9 m	\$96.6 m	38%

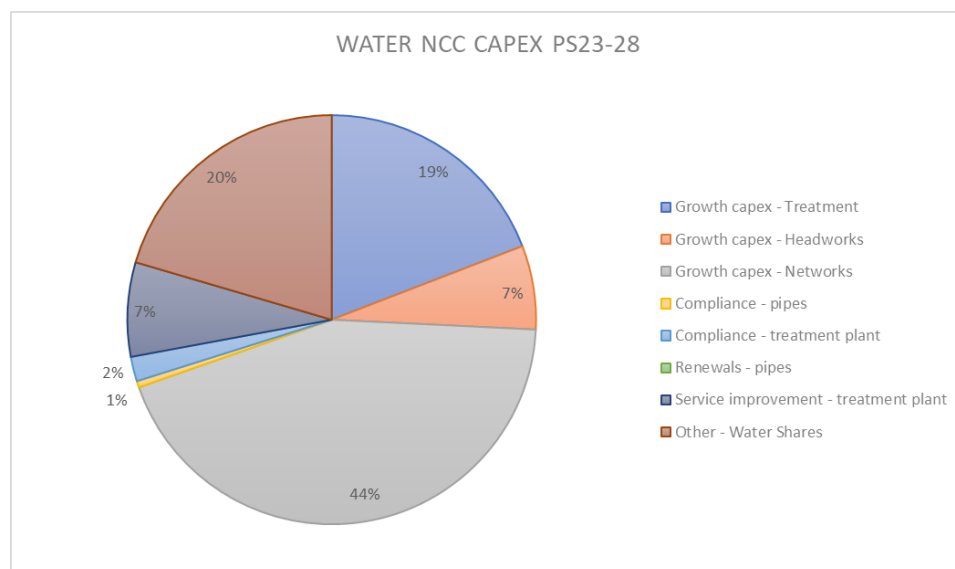
Water Capital Projects	2023-2028			2028-2033		
Project Name	Capital cost	Cost in NCCs	% Growth	Capital cost	Cost in NCCs	% Growth
Bendigo, Castlemaine and Kyneton WTP Water Quality Upgrades	\$11.3 m	\$1.1 m	10%	-	-	-
Goornong Treated Water Supply Upgrade	\$13.6 m	\$1.4 m	10%	\$3.8 m	\$0.4 m	10%
Trentham WTP Capacity Upgrade	\$15.8 m	\$4.4 m	28%	-	-	-
Purchase Water Shares	\$6.8 m	\$6.8 m	100%	\$30.8 m	\$18.3 m	59%
Water Main Renewals	\$15.6 m	-	-	\$30.9 m	\$1.7 m	5%
Water Treatment Plant Renewals	\$5.0 m	\$0.6 m	13%	\$9.9 m	\$2.0 m	20%
Headworks Growth	\$2.2 m	\$2.2 m	100%	\$4.4 m	\$4.4 m	100%
Integrated Water & Sewer Planning - water	\$3.2 m	\$3.2 m	100%	\$6.3 m	\$6.3 m	100%
New Development	\$5.3 m	\$5.3 m	100%	\$10.5 m	\$10.5 m	100%
Water Network Growth	\$6.2 m	\$6.2 m	100%	\$12.3 m	\$12.3 m	100%
Water Network Improvements/Compliance	\$19.0 m	\$0.2 m	1%	\$37.6 m	-	-
Water Network Renewals Other	\$2.3 m	-	-	\$4.5 m	\$0.4 m	9%
Water Treatment Growth	\$2.0 m	\$2.0 m	100%	\$3.9 m	\$3.9 m	100%
Water Treatment Improvements/Compliance	\$18.3 m	-	-	\$36.2 m	\$5.4 m	15%
	\$126.4 m	\$33.4 m	26%	\$178.5 m	\$65.4 m	37%

Growth capital expenditure can also be expressed by region:

	2023-2028			2028-2033		
	Water	Sewer	Recycled	Water	Sewer	Recycled
Campaspe	\$1.4 m	-	-	\$0.3 m	-	-
Coliban Northern	\$20.4 m	\$47.3 m	\$2.5 m	\$43.1 m	\$89.1 m	-
Coliban Southern	\$4.1 m	\$7.1 m	-	\$18.4 m	\$7.3 m	-
Elmore	\$0.0 m	-	-	\$0.1 m	-	-
Goulburn	\$0.1 m	-	-	\$0.2 m	-	-
Loddon/Wimmera	\$0.1 m	-	-	\$0.1 m	-	-
Murray	\$1.8 m	\$0.9 m	-	\$2.7 m	\$0.2 m	-
Trentham	\$5.4 m	-	-	\$0.4 m	-	-
	\$33.4 m	\$55.4 m	\$2.5 m	\$65.4 m	\$96.6 m	-

While the majority of the growth capital expenditure is in Bendigo, so is the majority of the growth. For this reason, we have decided to retain our single “postage stamp” approach to NCCs. Note above, however, that we have proposed to introduce a Small Lot Infill NCC so that small subdivisions in small town have a lower NCC than larger subdivisions.

Key projects with a growth element by town



Axedale Water Reclamation Plant upgrade

These works will involve a new reuse system and lagoon upgrades to cater for a greater number of customers in this network.

Bendigo Water Reclamation Plant upgrades

This is a significant upgrade to our wastewater treatment capacity and facilities that will be delivered over the next two pricing periods. A total project cost of \$144 million will be spent in upgrades to treatment assets, odour omissions and sludge processing. This is a critical project to cater for growth. Only \$51 million of these costs are included within the NCCs.

Bendigo Sewage Network upgrades

The large sewer collection mains across Bendigo urgently require upgrades. These upgrades will be delivered over the next two pricing periods. All upgrades are a result of ongoing growth in Bendigo, in particular Marong, Maiden Gully, Strathfieldsaye and Huntly, as well as trunk mains to cater for the ongoing growth in areas such as Golden Square.

Bendigo Water Treatment Plant upgrade

To continue to support growth and meet demand on our water treatment plant, the membranes that treat drinking water for the Bendigo region need to be duplicated. The design component for this project will be delivered in the next pricing period, with the works scheduled for 2028-2033 pricing period.

Bendigo Water Network upgrades

Water supply networks are currently being expanded across major growth fronts in Huntly, Strathfieldsaye and Maiden Gully/Marong. This will continue for ten years (PS23 and PS28). In PS23 we will complete the upgrade and expansion of the Maiden Gully/Marong network. Further investments in Huntly and Strathfieldsaye will follow in PS28.

Castlemaine Water Reclamation Plant upgrade

The Castlemaine Water Reclamation Plant is at capacity and urgently requires upgrading to meet growth and compliance at the site. This plant also services surrounding towns such as Maldon, Newstead, Campbells Creek and Harcourt.

Castlemaine Sewage Network upgrades

The large sewer mains across Castlemaine require upgrades as a result of growth and compliance. Upgrades in the next price period will focus on Campbell's Creek, Chewton and Newstead.

Castlemaine Water Treatment Plant upgrade

To continue to support growth and meet the growing demand on our water treatment plant, the membranes that treat drinking water for the Castlemaine region need to be duplicated. The design component for this project will be delivered the next pricing period, with the works scheduled for PS28. This plant also supplies treated water to the surrounding areas such as Newstead, Maldon, Harcourt, Taradale, Guildford and Elphinstone.

Kyneton Sewage Network upgrades

The large sewer mains and pump stations across the Kyneton network require upgrading as a result of growth within the township, and satellite towns like Trentham.

Kyneton Water Treatment Plant upgrade

To continue to support growth and meet the growing demand on our water treatment plant, the membranes that treat drinking water for the Kyneton region need to be duplicated. The design component for this project will be delivered in the next pricing period, with the works scheduled for PS28.

Goorong Water Treatment Plant upgrade

To support growth and continue to provide safe drinking water, the Goorong Water Treatment Plant will be augmented with a supply from Bendigo. This project is driven by both the condition of the treatment plant and the growth in the area. The proposed pipeline from Bendigo will enable the long-term growth of this community.

Echuca and Cohuna Water Treatment Plant upgrades

Both the Cohuna and Echuca Water Treatment Plants require upgrades to accommodate continued growth in the area. Cohuna will need a completely new treatment plant in the coming decade. However, works in the next five years will focus on the expansion of the plant's ability to meet demand and improve water quality.

Similarly, works in Echuca will improve water quality but are also designed to assist in meeting the demands of the expanding community.

Trentham Water Treatment Plant upgrade

To support the growing community of Trentham, the water treatment plant needs to be more than 50 per cent larger than its current capacity.





Summary

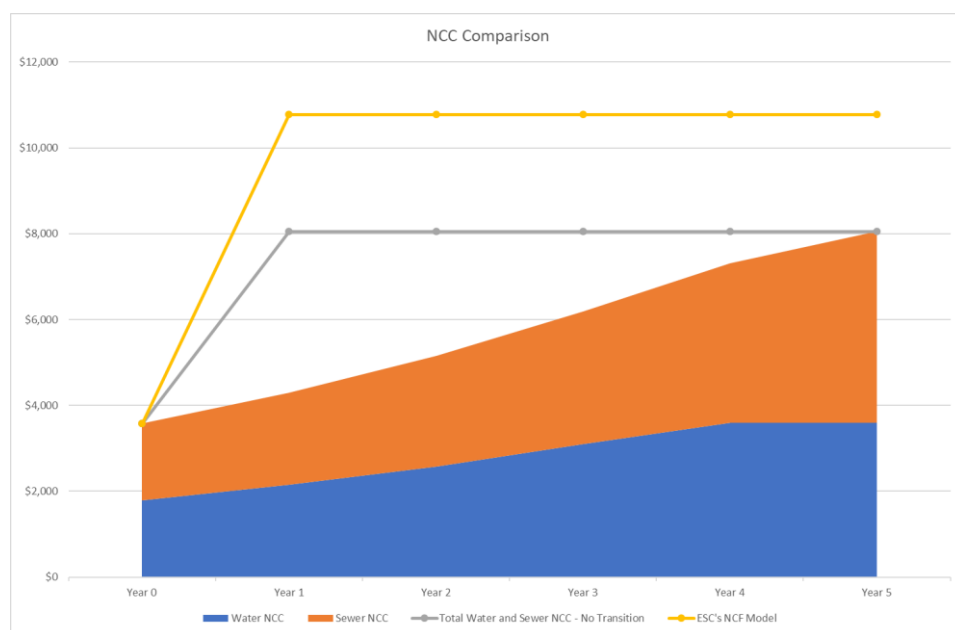
Our revised NCC proposal will be submitted to the ESC in May for its consideration. We are proposing a new AIC methodology be used in the calculations of NCCs, which we believe provides greater transparency and flexibility in response to customer growth in our region.

We are proposing to increase NCCs to better reflect the increase in capital expenditure:

- Water, Sewer and Recycled Water NCCs will increase by 20% each year for the next pricing period until the actual cost is reached. Sewer NCCs will reach the actual cost in the 2028-2033 period.
- A sewer GCE Guarantee rebate will apply where we do not deliver 80 per cent of the planned sewer GCE.
- A Small Lot Infill NCC will be introduced where the following criteria are met:
 - Area less than 450sqm
 - No more than two new created lots (1 into 2 or 1 into 3)
 - Not located in the five greenfield growth areas– Maiden Gully, Strathfieldsaye, Marong, Huntly, Bagshot
 - Excludes scenarios where un-serviced lots are being created as part of the subdivision.

The ESC will publish a determination on our submission in June 2023.

Should our revised proposal based on the AIC model not be accepted by the ESC, the fallback position would be to revert to the legacy NCF model. This would result in a total NCC higher than that calculated by the AIC model.



In response to the draft decision and to the feedback we have received from developers in drafting our response, we plan to continue building an ongoing engagement program with the development community where we will explore opportunities to:

- Report annually on the delivery of our capital program and progress of growth-related projects
- Redevelop online content so that it is more engaging and user friendly
- Develop tours of key assets and/or projects being delivered
- Hold further workshops with developers on specific issues or areas of interest

We will finalise the format and timing of these activities in early 2023-24.



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