

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 at Panel Day 1 on Saturday 12 February 2022.

Questions and responses

COLIBAN WATER RESPONSES

Why doesn't the State Government provide funding to Coliban Water?

All water corporations are, by legislation of the Victorian Parliament, cost recovery agencies. This has been the case since before Coliban Water's establishment in the early 1990s. Occasionally the State Government (or the Federal Government) will provide special purpose grants for specific infrastructure. While we actively seek such grants and were recently successful in small grants (less than \$1m), the last major grant received for a core (water or sewer) service was for the Superpipe in 2008. Recently we have been advised of funding of \$3.7m for a recycled water pipeline in Kyneton although we are awaiting receipt of this money.

Did the State require the Superpipe and contribute to the up-front cost?

Coliban Water had no choice but to build the Superpipe to respond to the millennium drought and ensure that Bendigo did not run out of water. The government contributed part of the cost of the Superpipe, and the rest was funded by debt. Note that the Melbourne Desalination Plant, costing several billion dollars, was fully paid for by water customers in Melbourne with no Government subsidy.

Are electricity and gas subject to the same cost recovery approach?

While retail electricity and gas is not subject to strict price regulation, electricity and gas networks are subject to the same cost recovery approach, right across Australia. This is regulated by the ACCC. Our cost recovery approach is also the same as that in the UK (and other countries) for water, gas and electricity.

What is the interest rate on this \$400m debt and what does this equate to per year.

In the 2020-21 Annual Report tabled in Parliament and published on our website, our debt was \$385 million. Our interest on this debt was \$19.6 million. This equates to an average interest rate of 5.1%. In accordance with the pricing model, all debt is assumed to be incurred smoothly over the preceding 10 year period. Therefore, we generally use fixed interest 10 year loans. While recent loans have been secured for about 3% interest, some loans taken out nearly a decade ago are at much higher interest rates.

How much is Coliban Water owed by customers for overdue water and sewer accounts?

As at 31 December 2021, Coliban Water had approximately \$6.9m of accounts that were overdue. This is approximately 5% of revenue. On average, we expect that approximately \$0.2m (approx 0.15%) will be not collected.



Community Panel responses



COLIBAN WATER RESPONSES (cont)

Will the debt ever be repaid?

Where someone has a home loan, standard terms are for a 25 or 30 year repayment. This approximates the working life of the home loan recipient. However, our assets can last significantly longer. In the long run, debt will stabilise once again as revenue from a growing customer base allows for this to occur. In the short term when a loan reaches maturity, we have no choice but to refinance with a new loan.

In addition to this, our Annual Report also shows "Service Concession Agreements" debt liabilities. As these were fixed in 2002 (and due to expire by 2027-28), they are non discretionary payments with no ability for Coliban Water to influence. Therefore, they are excluded from our "debt" figures above.

Will higher prices encourage Coliban Water to spend more in the future, negating the savings we are hoping to pass onto future generations?

The answer to this question differs depending on whether we are referring to Operating Expenditure (day-to-day costs, like petrol) or Capital Expenditure (large investments, like a house or car).

Capital Expenditure: Our higher revenue base will enable us to invest more in long term pipes and treatment plants that will provide better services to customers and allow us to meet health regulations (water quality) and environmental regulations (less sewer spills). It is because of this need that price increases are inevitable.

Operating Expenditure: No. Operating Expenditure is benchmarked and audited by the regulator as part of the price review process. Having lower debt now will never encourage us to spend more money on day-to-day operating costs. If anything, there is potential for some investments to lead to reductions in Operating Expenditure - reducing the cost burden for future generations.

Do high service fees on customer bills result in smaller use households subsidising higher use households?

No. Given the cost of replacing every pipe and treatment plant would be in excess of \$2 billion, most of the costs of providing water treatment and sewer disposal services are fixed. As we are strictly cost recovery, any proposal to reduce fixed charges would require significant increases in usage charges, causing significant financial harm to customers experiencing vulnerability. This may include renters who are not allowed to invest in water efficient appliances and tanks, and who may be unable to convince their rental provider to pay for a plumber to fix a leak.

With an ageing population, will a small number of adults be left to support a large number of senior citizens? Have you projected for a reduced population?

The population is ageing and that there will be a higher percentage of older residents in the future. This is equally true for Bendigo and, more broadly, Australia. However, in line with official government forecasts, we are assuming an increasing population for the next 25 years to 2048, and likely beyond. We have not modelled population and customer reductions.



Community Panel responses



COLIBAN WATER RESPONSES (cont)

Why not build assets that will last 5,000 years, like aqueducts?

Pipe and treatment plant technology changes, and different areas experience different growth rates from decade to decade. Over 50+ years, this becomes unpredictable.

The further into the future we plan, the more expensive this becomes. We do build pipelines and treatment plans with growth in mind, but we try to ensure that current customers do not bear significant capital costs of enormous pipelines and significantly oversized treatment plants.

How much is Coliban Water owed by customers for overdue water and sewer accounts?

As at 31 December 2021, Coliban Water had approximately \$6.9m of accounts that were overdue. This is approximately 5% of revenue. On average, we expect that approximately \$0.2m (approx 0.15%) will be not collected annually.

So are we at the end step on this research journey before changes are implemented? OR another important step towards a satisfactory outcome for all? Are we the last step before changes are implemented?

The main pieces of research to help inform the panel are complete, however there will be further consultation with the broader community before we finalise our pricing submission. We will also continue to gather feedback from customers through our ongoing business as usual engagement activities.

Are these bill simulator figures in excess of CPI?

Yes, the figures provided in the bill simulator are in excess of CPI

What is the min payment of a payment plan and why that amount?

There is no minimum payment. We try to tailor solutions to the needs of the customer and their circumstances. So the question is really how much can you afford to pay?

This will sound a little cynical, but if it's not profits that drive the company, what does? a passion for water? a commitment to community?

We want to be a customer centric organisation and get the best possible outcomes for our customers and communities. Our culture is to Earn the Customer, Own the Risk and Act.

Has Coliban water undertaken an extensive consultation such as this panel in the past?

We carry out a range of engagement activities which are detailed on pages 42-44 of the Background Booklet. We have previously run customer forums up to 2 days in duration. This is the first time we have entered into a formal deliberative process like this.

Can we please have access to this map legend for later https://coliban.com.au/files/2020-12/Coliban_Water_Annual_Report_2019_20.pdf.

This is in the Background Booklet on page 4.



Community Panel responses



INSYNC RESPONSES

Can you please show us the Bill Simulator that you used?

A demonstration version of the bill simulator has now been uploaded to the Community Panel resource portal. You can also access it by clicking here: [Coliban Water Bill Simulator \(insyncsurveys.com.au\)](https://insyncsurveys.com.au)

Page 48 of engagement report - It appears people on concessions and who may be in the vulnerable category already have a higher willingness to pay more to help increase support? Is that correct? Can you discuss this?

Yes, the bill simulator showed that concession card holders have a higher willingness to pay to support customers experiencing vulnerability (\$2.77 m), compared to non-concession card holders (\$2.11 m).

However, when we ran a focus group with this cohort they decided to “maintain support”. Their main reason being that Coliban Water already provided a good level of assistance to customers in need. Here is how a few customers explained their decision:

“I find the level of support really good. I’ve had a plumber come in and put a new toilet in, fix leaking taps. I’ve had Coliban Water match my bills. Coliban Water have always helped me through.”

“The services you offer to people are amazing. There is no other organisation that is on par with Coliban Water. Coliban Water is proactive with how it handles financial difficulty. Maintain the support we have now, but re-assess if more people are struggling and need support.”

There are a few different biases which may have affected the thinking of the people who participated in the bill simulator and the focus groups. You’ll need to make judgements about that.

The first bias is known as “social desirability bias”. This is where one answer is more socially desirable than another. In this topic, you might feel pressure to be more generous in group discussions than you would be if you were on your own.

A second bias is called “in-group bias”. This is where we tend to favour the group we belong to at the expense of other groups. If a person has never had trouble paying their bills then they have a tendency to assume that people who are having trouble are fundamentally different. This might make them less generous. The truth is that financial hardship is just a few bad decisions and bits of bad luck away for most of us.

Therefore, “framing bias” is also relevant. This is where the background information “frames” the topic and influences your deliberations. For this reason, we have purposefully framed this topic in ways that create empathy and compassion rather than cynicism and “othering”.



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INSYNC RESPONSES (cont)

The 5 options for intergenerational debt: 3 with greater or lesser debt funding 2 based on mainly/most price rises - what is the potential bias from people opting for the mid-point?

There is the potential, but as the results show, only 23% of people left the slider where it began. About one quarter of people moved the slider left, and about half of people moved it to the right. We are also wary of “starting point bias”. This can play a part for two reasons. The first is laziness, or where the question didn’t make sense. The second is because neither of the options is appealing, and that was true in the case of the intergenerational debt question. Leaving the slider where it began could have been a way of saying “I don’t like either option”. This didn’t tend to happen.

One might expect that the 8% of people who thought the exercise was “loaded and leading” might be more likely to leave the slider where it began when compared to the 92% who didn’t think the survey was “loaded and leading”. This wasn’t the case either.

The chart below shows the 201 “Loaded and Leading” answers.

