

June 2024



Greater Western Water: Review of response to the ESC's Draft Decision on expenditure forecasts

2024 Water Price Review

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BACKGROUND

FTI Consulting has been asked to provide its views on the response the commission received on its Draft Decision for the 2024 water price review from Greater Western Water (the **response**).¹ We have considered the matters raised in the response as they relate to the report we provided to the commission on Greater Western Water's proposed expenditure.²

In its response, Greater Western Water has often restated the arguments that were part of its original price submission and information provided during our review. Where this is the case, we have taken the view that as no new information has been provided our recommendations remain unchanged. However, Greater Western Water has provided additional information for some of the expenditure items we recommended adjustments for. Where this is the case, we have assessed this additional information and made adjustments where appropriate.

OPERATING EXPENDITURE

Greater Western Water's forecast operating expenditure reflected:

- baseline 2022-23 expenditure of \$209.63 million, which is 14 per cent above the combined expenditure benchmark allowances approved by the Commission in the previous price review for City West Water and Western Water
- a step change increase to the baseline of \$34.49 million across the regulatory period
- average growth in controllable operating expenditure of 2.8 per cent per year and an average efficiency factor of 3 per cent per year.

In instances where Greater Western Water were unable to justify that an expenditure item was prudent and efficient, we recommended the Commission remove this from the expenditure benchmarks for the PS5 regulatory period. The adjusted benchmarks reflected the level of forecast expenditure we were able to assess as being prudent and efficient only.

Based on Greater Western Water's submission, discussions with the business, the further information it provided, we provided an adjusted forecast operating expenditure that we considered was consistent with a prudent business operating efficiently. This reflected our view that:

- the key drivers of some of the overspend against the baseline appeared reasonable, however, there were several instances where we were unable to verify the prudence and efficiency of the overspend
- the proposed step changes were mostly reasonable and supported by a sound rationale, with some changes.

¹ Greater Western Water, Water Price Review 2024 – Response to Greater Western Water Draft Decision, 7 May 2024

² FTI Consulting, Greater Western Water: Review of Expenditure Forecasts, 2024 Water Price Review, February 2024

We recommended the following adjustments to Greater Western Water’s forecast controllable operating expenditure for the PS5 regulatory period:

- a reduction in baseline 2022-23 controllable operating expenditure of \$16.86 million
- a reduction in proposed step changes of \$3.16 million
- a reallocation of \$12.60 million from step changes to the efficiency factor.

Table 1: Recommended adjustments – controllable operating expenditure (\$ 1 January 2024, millions)

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|---|---------------|---------------|---------------|---------------|
| Forecast controllable operating expenditure | 218.18 | 218.52 | 219.00 | 220.42 |
| Recommended adjustments: | | | | |
| Baseline adjustments with amended efficiency factor (reductions) | | | | |
| Integration costs | -1.21 | -1.13 | -1.04 | -1.04 |
| Compliance obligations | -2.95 | -2.75 | -2.54 | -2.54 |
| Corporate costs | -0.68 | -0.63 | -0.58 | -0.59 |
| Customer and community engagement | -0.92 | -0.86 | -0.79 | -0.79 |
| Field maintenance | -6.23 | -5.81 | -5.35 | -5.36 |
| Labour costs | -0.81 | -0.76 | -0.70 | -0.70 |
| Unexplained cost increases | -2.28 | -2.13 | -1.96 | -1.96 |
| | -15.09 | -14.07 | -12.95 | -12.98 |
| Step change adjustments (reductions) | | | | |
| New billing and collection system - removal of contingency allowance | -0.77 | -0.78 | -0.80 | -0.81 |
| New billing and collection system - reallocation of forecast efficiencies | -1.86 | -2.84 | -3.93 | -3.97 |
| | -2.63 | -3.62 | -4.73 | -4.78 |
| Total recommended adjustments | -17.72 | -17.69 | -17.68 | -17.76 |
| Adjusted total operating expenditure | 200.47 | 200.83 | 201.32 | 202.66 |

Integration costs

In our final report we noted that Greater Western Water advised that total integration expenditure in the 2022-23 base year was just under \$7 million. Greater Western Water removed \$2.9 million of these costs that were non-recurrent, leaving \$4.1 million of ongoing integration costs. Greater Western Water submitted that \$2.93 million of these costs were offset by efficiencies embedded in the base year, resulting in net ongoing integration operating expenditure of \$1.19 million.

Our final report found that we were satisfied with the information provided by Greater Western Water regarding the alignment of the two EA agreements and with the reasoning for the increase in Oracle licence costs. Both items were therefore considered prudent and efficient.

Our two key concerns were with ongoing costs from duplicate systems, being the GIS system and customer call centres. We considered that activities such as rewriting documentation and decommissioning systems are non-recurrent and recommended an adjustment to Greater Western Water's base year expenditure of \$1.35 million, comprising \$0.95 million for the costs of consolidating GIS systems and \$0.4 million for the costs associated with operating and managing customer call centres.

In its response Greater Western Water generally argues that it needs to continue to incur integration expenditure to comply with its obligations and that the ESC's guidance "did not extend to requiring the total removal of ongoing integration expenditure from our proposed base year."³

While it is understood that these costs will continue to be incurred in the short-term given the time it will take to rationalise and consolidate systems, our main concern was that Greater Western Water has not demonstrated that they are recurrent (a necessary condition for inclusion in the base year), nor that they are prudent and efficient.

Greater Western Water's response does not address the key issues identified in our report, including why this expenditure is recurrent. Therefore our assessment as outlined in our final report remains unchanged and we are still of the view that these costs are not recurrent, prudent or efficient and should be removed from the base year.

Labour costs

In our final report we noted that Greater Western Water identified \$5.7 million in additional labour costs compared to the combined benchmark allowance in the base year. While it initially stated that \$2.7 million of this is captured under other categories (i.e., integration, transformation and changes in obligations), following subsequent reconciliation, the majority of these costs (\$4.8 million) are included in those categories.

The remaining \$0.91 million (reflected in this line item) is attributed to:

- internalising certain roles and functions (that were previously outsourced)
- additional resources for strategic planning activities across the business

³ Greater Western Water, Water Price Review 2024 – Response to Greater Western Water Draft Decision, 7 May 2024, page 18.

- additional resources in corporate services, especially the people, culture and capability area. This reflected the focus on strategic opportunities and the need to upskill staff.

We requested additional information on these costs. This did result in the revised reconciliation of labour costs between categories, including reducing the increases attributed to this residual 'labour cost' category (from \$3 million to \$0.91 million). However, Greater Western Water was not able to provide any further information beyond what was already included in its submission.

While Greater Western Water described these costs, it did not provide sufficient information to verify the prudence and efficiency of the \$0.91 million increase. We therefore proposed an adjustment of \$0.91 million to the baseline.

In its response Greater Western Water restates that these costs are prudent and efficient and largely relies upon the argument that they should be included because it not proposing a step change for payroll tax and superannuation.

Greater Western Water's response does not address the key issues identified in our report, rather it proposes a different argument for the inclusion of the \$0.91 million increase in labour costs. We do not consider that GWW's argument re payroll tax and superannuation can be used to justify costs that have not been verified. Therefore our assessment as outlined in our final report remains unchanged and we are still of the view that these costs are not prudent or efficient and should be removed from the base year.

Field maintenance

In our final report we noted that Greater Western Water submitted that since the 2018 City West Water and 2020 Western Water determinations, it has seen an average annual increase in its asset management costs of 5.7 per cent. Greater Western Water identified the key drivers of the cost increases as:

- increases in input costs (fuel, materials, labour)
- meeting customer expectations on response and rectification times, particularly with the higher transport times to attend to faults in inner city suburbs
- higher reinstatement costs given the increase in faults in the inner urban and CBD areas (although it confirmed that the trends in failure rates themselves are not abnormal or unusual)
- higher customer and network growth across areas previously served by City West Water and Western Water, although it noted that in the case of the latter, this has resulted in an increase in temporary assets to serve 'out of sequence' developments, resulting in more maintenance and pump management, and
- increased safety requirements placed on repair crews, including additional traffic management requirements imposed at a State and local level from 2018-19.

We requested further detail from Greater Western Water on the \$6.96 million uplift, and basis for why it expect to continue to incur this cost for the duration of the current regulatory period.

Greater Western Water provided further information explaining its competitive procurement process and the governance around its contract management with maintenance service providers. It

provided descriptions of the key drivers of its increase in maintenance costs. These include drivers commonly cited by businesses in the 2023 Price Review, particularly increases in input costs. However, Greater Western Water was unable to provide a breakdown of costs associated with each of these drivers.

It was our view that Greater Western Water should be able to provide information on the costs of these drivers, which we expect it would need to know as part of its contract oversight/management. Further, to provide an opinion on the prudence and efficiency of these costs in accordance with the Guidance Paper (as is our role), we required quantitative information on the underlying cost drivers.

While we recognised that Greater Western Water may have a legitimate need for the increase in base year maintenance expenditure, we could not provide an opinion as to its prudence and efficiency.

Greater Western Water's response provided trend analysis in field maintenance costs for the period 2016-17 to 2022-23. This shows a step increase in 2018-19 of 17.4 per cent, and an average compounding increase in responsive maintenance of 3.6 per cent per annum and preventative maintenance of 4.4 per cent per annum for the period.

Greater Western Water also submits that the average cost of repairs increased during the current regulatory period for the top three responsive maintenance activities. It has restated the drivers behind this increase (as outlined above) with the addition of an increase in high cost/complex water activities. The increase in average costs of repairs account for around \$5.8 million of the \$6.96 million overspend. Once again, Greater Western Water has not provided a further breakdown of these factors.

In addition, Greater Western Water has also stated that it has observed an increase in external contractor costs, and that this increase accounts for around \$1.2 million of the \$6.96 million overspend. These costs have seen an average compounding increase of 11 per cent per annum. Greater Western Water provided a description of the cost components that make up external contractor costs, which include:

- support fees and office costs
- depot costs, including spoil management
- consumable inventory and ad-hoc costs
- operation call centre support

Greater Western Water also outlined the competitive procurement process undertaken to award the contract for these services, as well as the incentives within the contract. However, it did not provide a further breakdown of these costs.

Our assessment of Greater Western Water's response suggests that it is evident that there has been an increase in maintenance costs over the regulatory period and the average costs of repairs have increased consistent with the factors that have impacted all Victorian water businesses. It is also evident that the costs associated with external contractors has increased. This provides a degree of confidence that the additional expenditure is likely to be prudent and recurring.

However, while we recognise the need for the expenditure, once again Greater Western Water has not been able to provide a further cost breakdown of the \$6.96 million. While we are of the view that the increased expenditure is more than likely prudent and recurring, without the breakdown of the additional costs, we are unable to provide an opinion on its efficiency.

Compliance obligations

In our final report we noted that Greater Western Water submitted during the current regulatory period it has experienced an increase in the costs of managing existing water and sewer compliance obligations totalling \$10.4 million, of which \$3.54 million is reflected in the 2022-23 base year.

The most material driver is the increase in costs associated with sewer compliance obligations (\$3.3 million). It indicated that its capital program to upgrade its treatment plants is ongoing and as upgrades are completed, new controls and operations adjustments will have to be made at other treatment plants to maintain compliance as they reach capacity until upgrades can be delivered at plants not scheduled for major upgrades during this regulatory period. Greater Western Water did not indicate how long it expects to continue to incur these additional costs (other than at least the duration of the PS5 regulatory period).

Noting the materiality of this item, we sought further information on the costings underpinning the increase. Given that additional expenditure on individual plants that have reached capacity should no longer be required once upgrades have been completed, we questioned the business as to the expected timing/duration of these costs.

Greater Western Water provided an itemised breakdown of most of the costs actually incurred in contracting suppliers for tankering, plant and pump hire in 2022-23. It assumed that this would remain representative of the (average) amount it will incur for these activities in each year of the PS5 regulatory period.

In our final report we stated that although we understand that Greater Western Water has been incurring these costs and why they are required, we were unable to verify if embedding an (average) annual amount of \$3.3 million in baseline expenditure for the PS5 regulatory period is prudent and efficient.

In its response Greater Western Water provided significantly more information to substantiate this expenditure, including the reasons why it believes these costs are ongoing and a further breakdown of these costs at each of the treatment plants.

Based on the additional information provided by Greater Western Water outlining how and where these costs have been incurred, we are now of the view that these additional costs are prudent and efficient and expected to be recurring. Therefore we recommend that the \$3.3 million remain in the base year.

Corporate costs and customer and community engagement

In our final report we noted that Greater Western Water submitted that it had incurred additional costs of \$1.79 million to improve its communications and customer engagement function.

Our assessment concluded that while we understood that Greater Western Water had identified a need to uplift its capability, the documentation provided did not clearly identify:

- all the key activities that either were not, or could not be undertaken with those existing resources
- why it is necessary for Greater Western Water (or important for its customers) to undertake those activities and/or increase its level of service to its required standard
- how this directly relates to these additional costs.

As a result, we concluded that we were unable to verify if these costs were prudent and efficient and recommended they be removed from the base year.

In its response Greater Western Water restates the needs (in expanded form) for the additional resources. For the \$0.76m in corporate, this comprises government relations and communications FTEs. It has expanded on some of the issues coming out of its engagement that are linked to the additional communications resources. It also provides further details on customer and community engagement, along with partnerships (\$1.03m).

Greater Western Water has detailed the types of activities that it needs to undertake as part of these functions. These drivers all appear reasonable. We also understand that this was underpinned by the Alchemy review, as well as themes emerging from the engagement.

However, consistent with its original submission, the challenge is then clearly drawing a line back to the numbers of FTEs and allowance sought. We are also still unable to link this to the business case previously provided, which related to the customer and community engagement function only.

Consistent with the challenges we identified in our final report, we consider that Greater Western Water has demonstrated why it needs these resources. However, we remain unable to verify if the costs are efficient and recurring and are still of the view that they should be removed from the base year.

Unexplained cost increases

In our final report we noted that Greater Western Water had explained \$22.93 million of the \$25.48 million increase in 2022-23 expenditure compared to the combined benchmark allowance. This left \$2.55 million in costs that were not explained. Greater Western Water had attributed this to practical difficulties associated with a full reconciliation of its actual costs against the benchmarks determined for City West Water and Western Water in their previous price reviews.

Noting these challenges, we were unable to verify the prudence and efficiency of the remaining \$2.55 million of the base year increase.

In its response Greater Western Water argues that the approach adopted by the commission needs to consider the impact of higher actual growth rates in customer connections when comparing the actual operating costs in the base year with the benchmarks set at the last price reviews for City West Water and Western Water.

Greater Western Water did not provide any further information for us to assess the prudence and efficiency of this additional \$2.55 million of expenditure. Therefore our assessment as outlined in our final report remains unchanged and we are still of the view that these costs are not recurrent, prudent or efficient and should be removed from the base year.

Billing and collections system

In our final report we noted that Greater Western Water submitted a step change for the incremental operating expenditure associated with the development of a new billing and collections system – Platypus, which totalled \$15.8 million over the PS5 regulatory period.

Greater Western Water provided a business case for this project, which we reviewed and requested further information regarding the expected operating expenditure. Based on the information provided, these costs comprise the following incremental costs:

- Greater Western Water's (incremental) internal labour costs
- support and maintenance services for the Oracle CCS and SelfServe Portal solutions under a five-year contract with DB Results
- subscription fees for Oracle's CSS solution, and
- an allowance for the costs of other incremental services.

In addition to this, the forecast costs include a contingency allowance of \$3.16 million of the step change over the PS5 regulatory period and included a risk component and a continuous improvement component. Greater Western Water confirmed that the roadmap for these improvements has not yet been fully defined.

Noting the explanations provided by Greater Western Water, our key concern was that this forecast step change included a contingency factor, including the 'continuous improvement' element. We would expect to see such an allowance underpinned by a schedule of activities with associated justifications and costings. While we understand the inherent uncertainties in forecasting these costs, and the reasons put forward as to why they should be allowed, we considered that this should otherwise be managed within the business, rather than passed on to customers.

In our final report we recommended removal of the contingency allowance from the Greater Western Water's proposed step change, which would remove \$3.16 million from the proposed step changes.

In its response Greater Western Water acknowledges that this language was carried from an original business case but that it was not appropriate to refer to these amounts as "contingencies". Instead, it covers mandatory updates, process enhancements and system controls. While it referred to these in general terms in the information it originally provided, it was not specific. It has now provided a list of the activities underpinning each category.

Based on the clarification and additional information provided by Greater Western Water, we consider that GWW has now substantiated these costs and therefore are of the view that they should not be removed from the step change.

CAPITAL EXPENDITURE

Greater Western Water forecast capital expenditure of \$1,721 million for the PS5 regulatory period. This is 22 per cent more than its actual expenditure over PS4 regulatory period and 68 per cent more than the forecast capital expenditure outlook for the PS5 regulatory period included in the PS4 submission for the two antecedent businesses.

Greater Western Water’s PS5 submission provided a detailed breakdown of its forecast capital expenditure for the PS5 regulatory period. The further information provided by Greater Western Water in relation to key issues for further investigation gave us a level of confidence that most of the proposed capital expenditure program was consistent with the actions of a prudent business operating efficiently. Most of the forecast capital expenditure was justified and is capable of being delivered by Greater Western Water in the PS5 regulatory period.

However, we recommended the benchmark capital expenditure allowance be adjusted for the PS5 regulatory period to reflect the removal of the following:

- the Water Main Renewal Program by \$79.43 million
- the Stormwater Harvesting Fund by \$12.84 million
- the Asset Ecosystem – Asset Foundations by \$68.13 million.

Table 2: Recommended adjustments - capital expenditure (\$ 1 January 2024, millions)

| | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | PS5 Total |
|---|---------------|---------------|---------------|---------------|---------------|-----------------|
| Forecast capital expenditure | 334.35 | 370.86 | 348.77 | 357.92 | 309.52 | 1 721.42 |
| Recommended adjustments: | | | | | | |
| Water Main Renewal Program | -15.88 | -15.88 | -15.88 | -15.88 | -15.91 | -79.43 |
| Stormwater Harvesting Fund | -0.20 | -0.86 | -4.28 | -4.28 | -3.21 | -12.84 |
| Asset Ecosystem – Asset Foundations | -12.14 | -20.41 | -20.23 | -10.59 | -4.76 | -68.13 |
| Total recommended adjustments | -28.22 | -37.15 | -40.39 | -30.75 | -23.88 | -160.39 |
| Adjusted total capital expenditure | 306.13 | 333.71 | 308.38 | 327.17 | 285.64 | 1 561.03 |

Water Main Renewal Program

In our final report we noted that Greater Western Water had proposed to renew 39km of water mains annually at a cost of \$172.8 million for PS5 to maintain the number of water main bursts and leaks per 100km to current levels. Greater Western Water had assumed that by maintaining these levels it would not exceed customers experiencing 5 or more interruptions in a 12-month period.

Greater Western Water had considered several options in developing its performance renewals program, which included renewing different combinations of pipe lengths in its two areas, namely Central and Western. Its proposed option would see 33km renewed in the Central area and 6km renewed in the West area. Other options that it considered, and were found to satisfy its criteria of no customers experiencing more than five water supply interruptions included:

- 50km in Central and 10km in West at a cost of \$264.52 million
- 20km in Central and 15km in West at a cost of \$130.96 million

Greater Western Water did not select the \$264.52 million option as the cost exceeded other viable options. It also did not select the \$130.96 million as it believed that it would increase the average failure rates, as measured by faults per 100km.

We reviewed the program justification report and supporting data provided by Greater Western Water and found that an option of renewing 20km of mains in the Central region (from option '20km Central + 15km Western') and 6km of mains in the Western region (from option '33km Central + 6km Western') also achieved the target of no customers experiencing more than five water supply interruptions. As Greater Western Water did not provide an estimated cost for this option, we derived a cost estimate based on the average cost of all options, resulting in an estimate of \$4.18 million per km.

In our final report we recommended that adopting an option of 20 km in the Central region and 6 km in the Western region was the lowest cost option and could potentially be delivered at an estimated cost of \$93.34 million.

In its response Greater Western Water reiterated its view that its preferred option (33km in the Central area and 6km in the West area) was the lowest cost option that achieved both its short-term and long-term objectives.

Greater Western Water undertakes two types of performance renewals:

- Cohort renewals
- KPI renewals

A cohort renewal is a planned renewal on classes of water mains that are deemed problematic assets. Greater Western Water has observed failures in assets with similar characteristics, such as asbestos cement, cast iron and cement lined cast iron. These assets are targeted for renewals and a program is developed to proactively replace them before they experience multiple failures.

A KPI renewal is more reactive and occurs once a water main has experienced three unplanned interruptions. Renewing a water main after three interruptions allows Greater Western Water to meet its target of no more than five interruptions in any 12-month period.

Greater Western Water stated that it was necessary to renew 33km in the Central area to maintain a 'steady state' of customers experiencing three unplanned supply interruptions. It contends that an increase in the number of customers experiencing 3 unplanned interruptions makes it more costly and difficult to achieve its target for five unplanned interruptions.

Greater Western Water provided additional modelling information that suggests that the option of renewing 20km of water mains in the Central area will lead to significantly more customers experiencing 3 unplanned interruptions when compared to its preferred option of 33km, with 454 (34 per cent) more by 2028 and 945 (71 per cent) more by 2034.

FTI Consulting met with key Greater Western Water staff to gain a better understanding of this modelling and its predicted outcomes. Greater Western Water has been renewing a similar length of water mains in the Central area in the past five years, with a combination of cohort and KPI renewals. It has observed that this level of renewals has seen a steady number of customers experiencing three unplanned supply interruptions.

FTI Consulting considers the reasoning now put forward by Greater Western Water around the need to maintain a steady state of three unplanned water supply interruptions to reliably achieve its target of no more than five customers experiencing more than five water supply interruptions as reasonable. We understand that accurately modelling for future unplanned supply interruptions is challenging and are of the view that Greater Western Water's current approach of observing actual water supply interruption data is appropriate. We would expect the monitoring of the outcomes of its performance renewal program to continue to ensure that the most appropriate level is maintained.

Based on the additional information provided by Greater Western Water we consider that the proposed options to renew 39km of water mains annually at a cost of \$172.8 million is prudent and efficient and recommend it be included in the forecast capital expenditure.

Stormwater Harvesting Fund

In our final report we noted that Greater Western Water had proposed a stormwater harvesting partnership fund to support the use of stormwater as an alternative water source to deliver non potable water for irrigation of public open space across its service area.

The fund is expected to support the delivery of 10-15 stormwater harvesting schemes in Greater Western Water's service area. Greater Western Water proposed to advertise Expressions of Interest to suitable partners, such as councils, to fund projects which meet specific criteria.

In our final report we recommended that the capital expenditure benchmark allowance be reduced by \$12.84 million to remove this proposed capital expenditure. While we understood that Greater Western Water had been able to garner support from its customers for this program, it had not been able to identify the individual projects or business cases for review. Therefore, we were not able to assess whether this expenditure was prudent and efficient.

In its response Greater Western Water provided further information regarding the nature and structure of this program. However, it was still unable to provide details regarding proposed projects as these had yet to be fully developed.

As Greater Western Water has been unable to provide details of the projects, our assessment as outlined in our final report remains unchanged.

Asset Ecosystem – Asset Foundations

In our final report we noted that Greater Western Water had proposed to spend \$68.13 million over the PS5 regulatory period to upgrade systems to support Asset Management. It proposed to create a system that enables greater flow of data, automate some processes and assist in the availability of information.

The project justification document provided by Greater Western Water did not contain sufficient detail to assess the prudence and efficiency of the projects. Greater Western Water advised that it had not prepared business cases for these programs despite the significant investment required. Further it advised that the proposed systems would provide efficiencies and improve operational decisions, which should lead to greater savings above the base case systems that are currently in operation. However, it did not quantify the potential savings nor indicate how they had been accounted for in operational or capital savings in the future.

As a result, our final report recommended that the capital expenditure benchmark allowance be reduced by \$68.13 million to reflect the forecast associated with this program.

In its response Greater Western Water provided a revised program of works for this expenditure item that has removed three projects and made other adjustments to the remaining two projects at a cost of \$28.75 million, resulting in a revised proposal of \$39.38 million. It also updated the costs of the following projects, and provided additional supporting information:

- Geospatial capability uplift
- Program Concordia and
- Program and project management capability uplift.

The additional information provided by Greater Western Water sufficiently explains the drivers, options analysis, cost estimates, risk and delivery of these projects.

Based on the additional information provided by Greater Western Water we consider that the proposed revised expenditure of \$39.38 is prudent and efficient and recommend it be included in the forecast capital expenditure.

SUMMARY OF ADJUSTMENTS

Based on our assessment of the response provided by Greater Western Water, below is a summary of the adjustments to our final report recommendation for operating and capital expenditure.

Table 3: Recommended adjustments to baseline controllable operating expenditure from our final report (\$ 1 January 2024, millions)

| | 2022-23 |
|------------------------|---------|
| Compliance obligations | 3.3 |

Table 4: Recommended adjustments to step changes in controllable operating expenditure from our final report (\$ 1 January 2024, millions)

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 |
|--|---------|---------|---------|---------|
| New billing and collection system - removal of contingency allowance | 0.77 | 0.78 | 0.80 | 0.81 |

Table 5: Recommended adjustments to our final report - capital expenditure (\$ 1 January 2024, millions)

| | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | PS5 Total |
|--|--------------|--------------|--------------|--------------|--------------|---------------|
| Water Main Renewal Program | 15.88 | 15.88 | 15.88 | 15.88 | 15.91 | 79.43 |
| Asset Ecosystem – Asset Foundations (reflecting revision include in response from GWW) | 8.24 | 12.85 | 8.43 | 5.55 | 4.32 | 39.38 |
| Total recommended adjustments | 24.12 | 28.73 | 24.31 | 21.43 | 20.23 | 108.18 |