

10 May 2023

Dean Wickenton
Senior Regulatory Manager
Price Monitoring and Regulation
Level 8, 570 Bourke Street
MELBOURNE, VIC, 3000

Dear Dean,

2023-28 Water Price Review

As requested, please find enclosed details of revised proposals following ongoing discussions with you and your staff. These changes are primarily related to New Customer Contributions, forecast energy costs and submission of a revised financial template. Each of these matters is discussed in more detail below.

New Connection Contributions (NCC's)

Thank you for providing us with a copy of FTI Consulting's 'Review of New Connection Contribution Related Contribution Draft Report' for our comment. In our response, dated 27 April 2023, to the FTI Consulting's initial findings and your additional questions we provided a revised proposal for new customer contributions as detailed below:

- Standard NCC's - A real 5% annual increase in NCC's that takes into account:
 - A fair allocation of capital expenditure that will benefit new customers based on the ratio of new customers to existing customers.
 - Our customers over the last 20 years have reduced their average annual usage from approximately 240kl to 140kl per property. This has created capacity in the system for new developments and customers to connect without the need to upsize our network. The proposed 5% real increase in the standard NCC provides a more equitable sharing of the benefit of the capacity created in the network between existing customers and new customers.
 - The proposed increase will maintain consistency with South East Water.
 - Continues to provide a material difference in the price signal to "infill" developers and for "greenfield" developments in the Urban Growth Boundary (UGB) area.
- Urban Growth Boundary (UGB) NCC's - A nominal increase of 10% in 2023-24 and 2024-25 followed by real increases of 10% per annum that considers:
 - The impact of an increase in NCCs on developers, new and existing customers.
 - A reasonable transition period that matches proposed NCCs with the modelled charge after 3 regulatory periods.

- The modelled estimated charge is predominantly influenced by forecast future growth, prices and costs that will vary from one price period to the next.
- Each price period we will continue to assess our NCC prices to balance developer and new customer impacts with the transition to cost reflective prices in the UGB.
- The Urban Development Institute of Australia's (UDIA) letter of 27th April 2023 in response to our revised NCC proposal.

We note that FTI Consulting report sets out their view of the reasonableness of the capital expenditure included in our proposed NCCs. The key conclusions in the report are there is a high level of confidence that \$3,311.2 million of assets where growth is the primary driver this expenditure should be included the calculation of NCCs but there is a low level of confidence in the remaining \$1,158.6 million of capital expenditure. Our understanding of the implications of their assessment is that:

- Growth expenditure is the primary driver of modelled UGB costs and therefore supports the increase in proposed NCCs of at least 10% in 2023-24 and 2024-25 followed by real increases of 10% per annum.
- The increase in the modelled charges for Standard NCC's is primarily other capital expenditure where growth is a shared driver and FTI Consulting have a low level of confidence. Therefore a real annual increase of 5% in Standard NCC's is not supported.

We also note that FTI Consulting reference the commissions guidance that capital costs included in NCC's should be incremental. In assessing capital expenditure where there is a shared driver they have used the principle of incremental cost and that is the primary reason for their low level of confidence.

The Commission's first pricing principle for setting NCC's is to have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection. We also note that 'have regard to' is that the relevant decision-maker must give those matters proper, genuine and realistic consideration. This does not preclude the Commission from giving consideration to other matters such as sharing the benefit of the capacity created in the network by existing customers through having real increases in the Standard NCC's.

Forecast energy costs

As previously discussed, we understand that our final revenue requirement will reflect latest available information – including energy costs, resulting in a proposed increase in operating expenditure for the period.

Latest forecast energy costs are based on the revised Water Authorities 5-year forecast prepared by Schneider Electric that is also attached together with other supporting documents. This update has revised modelling for LGCs and Energy only, with other elements of the price stack remaining constant. The LGC prices reflect the current forward market and the Energy rates provided are a combination of purchases already made, and forecasts for future purchasing based on the 75 percentile of the modelled spot price that allows for additional hedging costs and retail margins that are not included in the spot price. This is same method used to substantiate the original proposal submitted in September 2022. We can arrange a presentation and meeting with Schneider Electric if you have would like additional information or have any queries.

Updated financial template

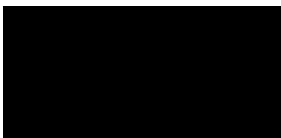
Attached is a revised financial template based on our proposals that reflects:

- Our response to the ESC's draft decision including:
 - 5% real annual increase in standard NCC's from 1 July 2023.
 - 10% nominal increase in UGB NCC's for 2023-24 and 2024-25 followed by a 10% real annual increase from 2025-26.
 - Revised demand forecasts based on new government population forecasts (VIF2022) made available following our original submission together with associated incremental operating costs of increase customer numbers.
- Revised energy costs using latest available information (as described above).
- Updated information received from the ESC in relation to cost of debt and inflation.
- Finalisation of outcome measures following discussions with ESC staff and targets adjusted to reflect revised demand forecasts (VIF2022) and an annual performance assessment as at 31 March, consistent with our price control adjustment mechanism. A full listing of the final outcomes, measures and targets are appended.
- 2022-23 prices for major products that have adjusted for the decision to cancel the remainder of the 2022-23 desalination water order – ensuring the 5% nominal price increase cap for 2023-24 takes this adjustment into account, together with price path adjustments to reflect the adjusted revenue requirement from the above changes.

In the updated financial template we are proposing a real price decrease of 4.8% in 2023-24 with the balance of a real price decrease in 2024-25 of 1.6%. We expect the price path in the final decision to be different to that currently modelled. Consistent with our Price Submission that proposes to minimise nominal price increases we would like the opportunity prior to the final decision to amend the proposed price path.

Please do not hesitate to contact me should you have any queries or require further information.

Kind Regards



Brett Mathieson

Manager Regulation, Planning and Water Resources Strategy

Contact us



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Appendix – Outcomes, Measures and Targets

Outcome	Measure	Unit	Target				
			2023-24	2024-25	2025-26	2026-27	2027-28
Safe and pleasant drinking water	Compliance with Safe Drinking Water Regulations (2015) (water sampling health parameters and regulatory audit)	Number of non-compliances	0 non-compliances	0 non-compliances	0 non-compliances	0 non-compliances	0 non-compliances
	Customers who agree we provide great drinking water (survey respondents answering 'strongly agree' or 'somewhat agree' via our ongoing survey)	% of customers surveyed	≥91%	≥91%	≥91%	≥91%	≥91%
Reliable water and sewerage services	Customers who experience three or more unplanned interruptions (water or sewerage services)	Number of customers	<7,000 customers	<7,000 customers	<7,000 customers	<7,000 customers	<7,000 customers
	Customers who experienced an interruption this years and more than five in total over three years	Number of customers	<3,572 customers	<3,572 customers	<3,572 customers	<3,572 customers	<3,572 customers
Timely response and repair	Customers' satisfaction with the restoration of their services (planned and unplanned interruptions) (Survey respondents answering 'very satisfied' or 'satisfied' via our ongoing survey)	% of customers surveyed	≥91%	≥91%	≥91%	≥91%	≥91%
	Customers whose water or sewerage service wasn't restored within four hours (planned and unplanned interruptions)	% of customers	≤4.85%	≤4.85%	≤4.85%	≤4.85%	≤4.85%
	Customers whose water or sewerage service wasn't restored within 12 hours (planned and unplanned interruptions)	% of customers	≤0.35%	≤0.35%	≤0.35%	≤0.35%	≤0.35%

Outcome	Measure	Unit	Target				
			2023-24	2024-25	2025-26	2026-27	2027-28
Service that meets everyone's needs	Customers' satisfaction with their most recent interaction with us (survey respondents answering 'very satisfied' or 'satisfied' via our ongoing survey)	% of customers surveyed	≥86%	≥86%	≥86%	≥86%	≥86%
	Customers, who accessed our support services, believe Yarra Valley Water helped them with their bills (survey respondents answering 'strongly believe' or 'somewhat believe' via our ongoing survey)	% of customers surveyed	≥92%	≥92%	≥92%	≥92%	≥92%
Saving water for the future	Water lost from Yarra Valley Water's supply system	% of water available	≤7.8%	≤7.5%	≤7.3%	≤7.3%	≤7.3%
	Recycled water used in areas where it's available	% of total water used	≥3.7%	≥4.4%	≥4.4%	≥4.4%	≥8.7%
	Average household water use (litres per property per day)	Average litres used by households each day	≤399	≤398	≤396	≤393	≤388
	Business customers who use more than 100ML (100 million litres) of water a year, who have an active water efficiency plan	% of customers	100%	100%	100%	100%	100%
Looking after our natural environment	Hectares of land we actively manage to preserve and restore biodiversity and natural habitats	Hectares of land	9 hectares	11 hectares	13 hectares	45 hectares	47 hectares
	Volume of sewage spills reported to the EPA as having a material impact to the environment	Kilolitres	≤5,000 kilolitres	≤5,000 kilolitres	≤5,000 kilolitres	≤5,000 kilolitres	≤5,000 kilolitres
	Number of customers who were on septic tanks and are now connected to the sewerage network	Number	>200	>200	>200	>200	>200
	Percentage of energy requirements met from renewables	% of all energy	85%	95%	100%	100%	100%