

Summary – 2018 Price Submission

A summary of our submission for water and
sewerage pricing for the 2018-23 regulatory period



At a glance



This submission proposes South East Water's five-year approach to ensuring that our business decisions best reflect our customers' priorities and delivers what they value most.

Key out-takes are highlighted below, each underpinned by our ongoing commitment to deliver healthy water for life.



Comprehensive communication and engagement

We communicated with 750,000+ customers and stakeholders, with 5,690+ directly involved in our 14 month engagement program.



Customer-driven outcomes

We identified five key outcomes that our customers value most, informing our approach for the next regulatory period. To deliver these the majority of output measures will either improve or remain ahead of industry average.



Higher cost efficiency targets

In the context of an already highly efficient business, we're proposing an average operating cost efficiency target of 2.3%. This is on top of capital program savings in the order of \$110M.



Less risk to customers

Accepting and managing greater risk on behalf of our customers is a key way we're proposing to lower prices.



Lower bills

On average, we're proposing to reduce customer bills by 7.3% (in real terms).



Ongoing accountability

We'll report against our outcomes to our customers each quarter throughout the next regulatory period, tracking our progress.



Commitment to deliver

Our executive team and Board of Directors were involved in this submission every step of the way, driving us to find more value for our customers. Their attestation of this submission reflects this.



Clear and transparent justification

From how we've engaged with our customers to how we've set prices – and everything that happens in between – we've provided thorough evidence and sound reasoning to support our proposal.

Executive summary



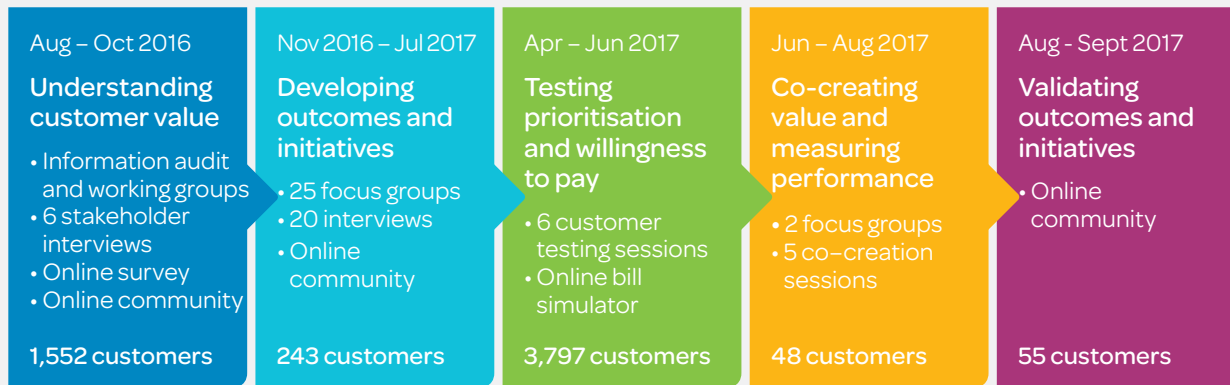
This price submission for the 2018-23 regulatory period has been developed through extensive engagement with our customers and is centred on the following five key outcomes they most value and expect:

- Get the basics right, always
- Warn me, inform me
- Fair and affordable for all
- Make my experience better
- Support my community, protect our environment.

Our engagement approach

To determine these outcomes, we developed and implemented a robust Customer Engagement Program. It's overarching purpose was to **ensure that our business decisions best reflect our customers' priorities and deliver what they value.**

This program builds on our existing business-as-usual engagement practices and their resulting insights and analysis and encompassed five key phases.



Our engagement was overseen by an independent Customer Engagement Council and supported through our 'Have your say' communications program.

Moving into this next regulatory period, it is our intention to build transparency and a stronger sense of the value we provide during each and every interaction with our customers. We also commit to ongoing engagement with our customers, so that we can co-design our key initiatives with them to better deliver on their expectations.



An example of our 'Have your say' communication program.

Our five customer outcomes



1. Get the basics right, always

Safe and reliable services are the most critical priorities when it comes to delivering value for our customers. They've told us it's important that we maintain current high levels of service and that as experts in our field, they trust and expect us to continuously innovate and improve. We propose to continue finding more efficient ways to deliver the essential services our customers expect.



2. Warn me, inform me

While fixing supply interruptions is important to our customers, so is how we warn them or keep them informed when there is a disruption. We propose to keep finding new ways to minimise customer impacts from network disruptions using a real-time website, SMS alerts and advanced network monitoring and analytics to identify events earlier. We propose to couple this with better scheduling of works, notifications and direct monitoring of customer disruption levels to guide ongoing improvements.



3. Fair and affordable for all

Given the essential nature of the services we provide, customers expect that our services and charges are fair for all. Many are concerned about bill certainty, control and affordability, however willingness to pay to increase investment to support vulnerable customers is low. We propose to deliver fair and affordable services through an ongoing focus on efficiency in how we deliver all customer outcomes, combined with leveraging the benefits of digitisation and continuous improvement across our vulnerable customer program.



4. Make my experience better

Customers are unwilling to pay more for an improved service experience – they simply expect it. To deliver value efficiently, we propose to better understand customer experiences and needs across various segments, and to focus on resolving contacts the first time by more effectively managing and consolidating customer data and interactions. We propose to increase education around existing services and the value we provide to drive awareness and uptake of preferred channels and to improve value perceptions.



5. Support my community, protect our environment






Customers place importance on us ensuring long-term water security while also protecting the bay and minimising our impact on the environment. To enhance water availability and create more liveable communities, we propose expanding the delivery of urban water recycling, investigating transformational agricultural water recycling opportunities, and providing water efficient education to our community. We also propose to reduce our carbon emissions and to mitigate sewer spills through advanced network monitoring.



Output measures

Key measures and programs have been identified under each outcome to ensure we deliver on our customers' expectations. Some targets we propose to improve upon, while other targets we propose to maintain at performance levels consistent with customer expectations. The following table provides a summary of the key measures we plan to focus on for the next regulatory period.

Table 1 Proposed output measures and targets

Outcomes	Output measures	Current performance	2022-23 Target
 <p>1. Get the basics right, always</p>	Percentage compliance with drinking water and recycled water standards	100%	100%
	Number of water quality complaints per 100 customers	0.18	0.18
	Number of customers receiving greater than 5 unplanned water supply interruptions	532	532
	Number of customers receiving 3 or more sewerage blockages	17	17
 <p>2. Warn me, inform me</p>	Percentage of customers notified per unplanned interruptions (for customers who have given us email/mobile details)	60%	80%
	Average duration of unplanned water supply interruptions	88 minutes	88 minutes
	Percentage of customers impacted by unplanned water supply interruption in peak times	28.1%	27.6%
	Percentage of planned water interruptions restored within notification period	98%	98%
 <p>3. Fair and affordable for all</p>	Operating cost per property	\$161	\$147
	Number of customers supported by South East Water Assist program	4,557	7,147
	Average level of debt upon entry to South East Water Assist program	\$925	\$800
 <p>4. Make my experience better</p>	Customer satisfaction – rating of 6 or above out of 10	81%	85%
	Value for money - rating of 6 or above out of 10	New measure	Committed to develop target by 2018-19
	Total complaints per 100 customers	0.43	0.37
 <p>5. Support my community, protect our environment</p>	Total net CO ₂ emissions	41,774	29,690
	Number of significant sewage spills (dry weather)	20	20
	Percentage of customers in greenfield areas receiving recycled water	47%	77%
	Volume of alternative water as a percentage of total water used in designated greenfield areas	12%	20%

Demand forecasts

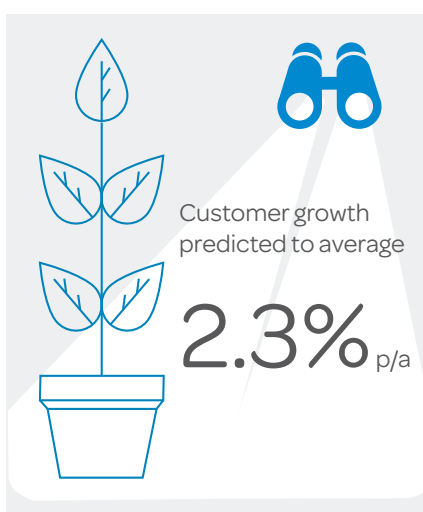
Demand forecasts for this submission are driven by the latest assumptions about current and future residential and business water usage, which results in total water sales forecast to increase by one per cent each year during the next regulatory period. This increase reflects the take up of more water efficient appliances, increased use of alternative water and smaller garden sizes.

Customer growth is projected to be on average 2.3 per cent a year during the next regulatory period. We have undertaken a more detailed customer growth analysis specific to our service area, which results in higher growth projections than expected by the Essential Services Commission (ESC) – resulting in lower prices for customers.

This approach supports an advanced rating under the 'Risk' and 'Management' categories of PREMO.

Operating expenditure forecasts

We developed our operating expenditure forecasts based on 2016-17 actual expenditure – and then projected forward to account for customer growth and targeted levels of cost efficiency aligned to the above customer growth of 2.3 per cent on average during the next regulatory period.



We propose to reduce our operating costs per property from current levels by nine per cent during the period. The 'Operating expenditure forecast' section provides further detail on our approach and commitment to efficiency.

We consider that this proposed level of cost efficiency supports an advanced rating under the 'Risk' and 'Management' categories of PREMO.

Additionally we are seeking to recover costs for a small number of step changes, which have been identified as either new regulatory requirements or resulting from major capital programs:

- Additional operating and maintenance costs to service Aquarevo, which will be offset by projected asset sales
- New regulatory security requirements for information technology (IT)
- Operating costs associated with upgrades already underway at our Lang Lang and Boneo water recycling plants.

Capital expenditure forecasts

Capital expenditure forecasts for this submission are broadly based on:

- a number of major capital projects that predominately cater for customer growth, including the upgrade of our Boneo Water Recycling Plant and a number of sewer projects to cater for new development
- key programs to deliver on customer outcomes including water mains renewals, water and sewerage network and water recycling plant upgrades to cater for growth requirements, backlog connections, ongoing IT requirements, and our Climate Mitigation Program.

During the next regulatory period, we will ensure that proposed works are prudent and efficient through our asset management planning process. Where appropriate we have challenged the level of service we provide, prioritised works and deferred projects out of the period. Subsequent to our asset management planning process we will also assume \$110 million of capital expenditure risk on behalf of our customers and ensure that our Capital Expenditure Program is weighted firmly in their favour.

This approach we consider supports an 'Advanced' rating under the 'Risk' and 'Management' categories of PREMO.

PREMO self-assessment

Our self-assessment for this submission is at an 'Advanced' PREMO rating based on the following.

Outcomes

Alignment of our proposed outcomes, outputs and programs to meet customer expectations and with targets that are either increasing or are being maintained at an above industry average performance level.

Management

Material level of cost efficiency built into operating and capital expenditure forecasts.

Engagement

Comprehensive Customer Engagement Program that strongly aligns customer preferences to the submission's outcomes.

Risk

Approach to setting demand, operating expenditure and capital expenditure that significantly allocates risk to South East Water to lower prices for customers.

Attestation and governance arrangements

In fulfilling the attestation requirements of the ESC, South East Water leveraged its existing, robust governance arrangements while also developing a standalone attestation framework especially for the 2018 Price Submission. Our bespoke attestation framework sought to actively engage and involve executive management and the board on the key activities and strategic decision points of the submission as well as provide a high degree of comfort around its assumptions and content. As an additional assurance measure, we engaged KPMG to provide an independent review over the

material aspects of our submission. Our Chair and Managing Director’s attestation is provided in Appendix 1.

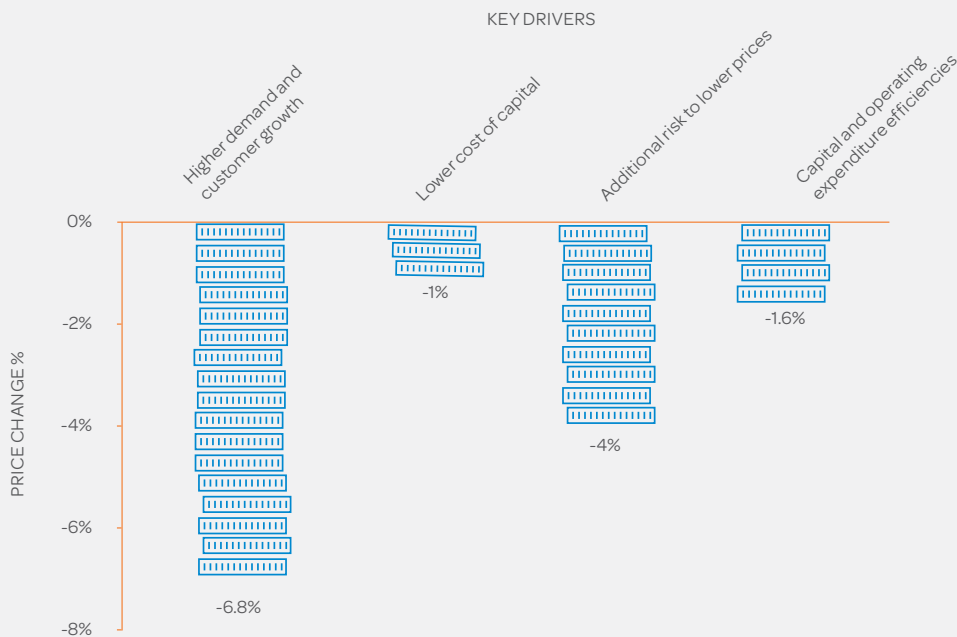
Prices and customer impacts

Based on our projections for demand forecasts, capital and operating expenditure and an ‘Advanced’ PREMO rating, **prices on average are forecast to be reduced** by 13.4 per cent in 2018-19. The key drivers of this average price reduction is broken down in the figure below.

In adjusting prices we also propose revising our current tariff structures to better deliver on customer expectations, with specific focus on fairness and affordability, bill control and simplicity. Key tariff structure changes include:

- Reducing water usage charges from three to two steps to balance affordability for large households, making the charges simpler, and still providing some reward for saving water
- Reducing the sewage disposal charge for residential customers to 50 per cent of the current rate to make the charges simpler and reduce the impact on bills associated with increased water usage in warmer periods or when customers have a leak
- Reducing recycled water usage charges to 80 per cent of Step 1 and removing the annual service charge of \$24 a year to provide those customers with a greater incentive to use alternative water
- Retaining business customer water usage charged at the second step.

Fig1 Breakdown of 2018-19 price reduction



2018-23 water and sewerage prices

The following table outlines proposed prices for residential customers for the next regulatory period. While all water and sewerage prices would reduce, in adjusting prices for the next regulatory period, we have sought to balance customer impacts.

Table 2 Proposed residential water and sewerage tariffs 2017-18 to 2022-23 (1 January 2018 dollars)

Residential tariffs	2017-18 \$	2018-19 \$	2019-20 \$	2020-21 \$	2021-22 \$	2022-23 \$
Water service charge	121.08	114.27	114.27	114.27	114.27	114.27
Sewerage service charge	384.48	362.87	362.87	362.87	362.87	362.87
Variable water charge (water – kL)						
Step 1 (0 – 440 litres/day)	2.67	2.40	2.40	2.40	2.40	2.40
Step 2 (441 – 880 litres/day to 2017-18); (from 2018-19 >440)	3.24	3.05	3.05	3.05	3.05	3.05
Step 3 (>880 litres/day), removed from 2018-19	3.86	-	-	-	-	-
Sewage disposal charge	1.88	0.94	0.94	0.94	0.94	0.94
Recycled water usage charge	2.32	1.92	1.92	1.92	1.92	1.92

Table 3 Proposed business water and sewerage tariffs 2017-18 to 2022-23 (1 January 2018 dollars)

Business tariffs	2017-18 \$	2018-19 \$	2019-20 \$	2020-21 \$	2021-22 \$	2022-23 \$
Water service charge	121.08	114.27	114.27	114.27	114.27	114.27
Sewerage service charge	456.60	430.93	430.93	430.93	430.93	430.93
Fire service charge	121.08	114.27	114.27	114.27	114.27	114.27
Water usage charge (kL)	3.24	3.05	3.05	3.05	3.05	3.05
Sewage disposal charge	1.88	1.77	1.77	1.77	1.77	1.77

Customer bill impacts

The following tables provide a sample of residential and business customer impacts proposed for the next regulatory period, with the average residential customer receiving a 7.3 per cent real bill reduction and business customers receiving a 5.6 per cent reduction in 2018-19.

Table 4 Annual residential customer bill impacts (1 January 2018 dollars)

	Usage (kL)	2017-18 bill \$ (\$17-18)	2018-19 bill \$ (\$17-18)	\$ change	% change (real)
Owner occupier – small user (apartment w/1-2 occupants)	90	\$772	\$756	-\$16	-2.1%
Owner occupier – average user (detached dwelling w/3 occupants)	150	\$1,017	\$943	-\$74	-7.3%
Owner occupier – large user (5 occupants; small garden)	350	\$1,959	\$1,688	-\$271	-13.8%
Tenant – small user (apartment w/1-2 occupants)	90	\$267	\$279	\$13	4.7%
Tenant – average user (detached dwelling w/2 occupants)	112	\$356	\$348	-\$9	-2.5%
Tenant – large user (5 occupants; small garden)	350	\$1,454	\$1,211	-\$243	-16.7%

Table 5 Annual business customer bill impacts – water and sewerage only (1 January 2018 dollars)

Customer categories	Usage (kL)	2017-18 bill \$ (\$17-18)	2018-19 bill \$ (\$17-18)	\$ change	% change (real)
Office building, laundries	262	\$1,867	\$1,762	-\$105	-5.6%
Swimming centres	3,138	\$15,158	\$14,306	-\$852	-5.6%
Caravan parks, child care centres	1,159	\$5,417	\$5,112	-\$304	-5.6%
Cemeteries, construction sites	1,025	\$4,377	\$4,131	-\$246	-5.6%
Golf courses, football ovals	2,159	\$7,970	\$7,522	-\$448	-5.6%
Farms, nurseries	220	\$1,296	\$1,224	-\$73	-5.6%

Business trade waste prices

Trade Waste Agreement Charges

For the current regulatory period we based the trade waste annual fixed charge (Trade Waste Agreement Charge) on a risk ranking of one to five for each trade waste customer, with charges reflecting the level of impact that each customer has on our business. We consider that this approach and associated charges still

reasonably reflects the costs required to service these customers. We therefore propose to retain our current pricing and criteria around Trade Waste Agreement Charges for the next regulatory period.

Volume and quality charges

We currently charge volume and separate load charges for suspended solids, Biochemical Oxygen Demand (BOD) and Total Kjeldahl Nitrogen (TKN).

During the next regulatory period we plan to review this approach to ensure it is cost reflective and sends the appropriate price signals about the impact of customer trade waste loads on our infrastructure and product targets. This review will also incorporate any findings from Melbourne Water's review of its charges prior to the resetting of its prices in 2021-22. In the meantime, we propose to retain trade waste volume and load prices at their current levels for the next regulatory period.

Table 6 Proposed business trade waste tariffs 2017-18 to 2022-23 (1 January 2018 dollars)

Business trade waste tariffs	2017-18 \$	2018-19 \$	2019-20 \$	2020-21 \$	2021-22 \$	2022-23 \$
Annual Trade Waste Agreement Charges						
Risk-rank category 5	414.76	414.76	414.76	414.76	414.76	414.76
Risk-rank category 4	2,378.08	2,378.08	2,378.08	2,378.08	2,378.08	2,378.08
Risk-rank category 3	4,756.20	4,756.20	4,756.20	4,756.20	4,756.20	4,756.20
Risk-rank category 2	7,134.36	7,134.36	7,134.36	7,134.36	7,134.36	7,134.36
Risk-rank category 1	14,268.72	14,268.72	14,268.72	14,268.72	14,268.72	14,268.72
Volume of trade waste (kL)	0.93	0.93	0.93	0.93	0.93	0.93
BOD (kg)	0.92	0.92	0.92	0.92	0.92	0.92
SS (kg)	0.52	0.52	0.52	0.52	0.52	0.52
TKN (kg)	2.02	2.02	2.02	2.02	2.02	2.02

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