



## **2008 WATER PRICE REVIEW**

# **Final WATER PLAN**

“A plan for the five year regulatory period commencing on 1 July 2008, and concluding on 30 June 2013”

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## **Context**

This document is Gippsland Water's final Water Plan, developed in response to the Essential Services Commission's (ESC) 2008 Water Price Review. Each Victorian water business is required to submit a final Water Plan to the ESC by 8<sup>th</sup> October 2007.

This final Water Plan is available to the ESC, various regulators, and the general public to promote an open and clear understanding of the issues facing water businesses as they plan ahead for the regulatory period from July 2008 to June 2013.

Gippsland Water has undertaken community consultation sessions across the region during a period of consultation which commenced with the release of a draft Water Plan in early August 2007, and came to a conclusion in mid September 2007.

Gippsland Water has taken into account the feedback received from regulators and the community on the draft Water Plan during the consultation period. This feedback features prominently in this final Water Plan.

## **Common Terms**

The use of the term "Water Plan" within the document refers to this final Water Plan. To avoid confusion, each page of the document is footnoted with the phrase "final Water Plan". The term "regulatory period" is used to describe the five year period commencing July 2008, and concluding on June 2013. This is the period for which this Water Plan will establish agreed standards, expenditure levels and tariffs.

The use of the term "first Water Plan" within the document refers to the Water Plan currently in place. Similarly, the term "first regulatory period" is used to describe the three year period commencing July 2005, and concluding on June 2008.

## **The Detail**

This final Water Plan is necessarily detailed to give the reader sufficient understanding of the Gippsland Water business, and the rationale behind the inclusion of capital and operational expenditure in the Water Plan.

The Executive Summary itself has been written as a stand alone document to allow the reader to gain a good understanding of the issues facing Gippsland Water, without the need to reference the more detailed information contained in the various chapters of the document.

The document is based on a structure outlined by the ESC, and Gippsland Water has attempted to conform with ESC requirements wherever possible.

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## **1.0 EXECUTIVE SUMMARY**

The 2008 Water Price Review provides water businesses across Victoria with the opportunity to clearly articulate and commit to a set of outcomes and prices to be delivered over the regulatory period. As part of this review process, Gippsland Water is required to submit a Water Plan covering each year of the regulatory period commencing 1 July 2008.

The Water Plan provides a mechanism for businesses to resolve tradeoffs with customers, regulators and the Minister for Water. Therefore it is important that the Water Plan contain sufficient detail about the outcomes that businesses intend to deliver, supporting information and evidence of consultation with customers.

Gippsland Water's Water Plan is a document that largely looks forward, focusing on the outcomes to be delivered for the regulatory period, and the expenditure, for both operational and capital investment purposes, that is needed to deliver those outcomes. Of particular interest to all parties is the impact that these proposed outcomes and expenditures will have on the cost to customers for the supply of water and sewerage services during the regulatory period.

Gippsland Water's Water Plan identifies our key business objectives, proposed strategies, main business challenges, risks and proposed prices for the regulatory period. We have created a vision that will provide sustainable, secure and efficient water and wastewater services to our customers. During the development of this Water Plan, we have in particular focused on organisational sustainability from a community, environment, customer and financial perspective in order to ensure that the vision is realised now and into the future. Critical to the successful delivery of these objectives is the financial ability to maintain current product and service standards and to successfully meet ever increasing regulatory, customer and community requirements and expectations.

Gippsland Water released a draft Water Plan in early August 2007, and has sought to engage with customers and regulators during a period of consultation spanning August and September 2007. This consultation process allowed Gippsland Water to detail the outcomes that the business is seeking to deliver, the cost of those outcomes, and the impact on tariffs for services. This final Water Plan details the issues identified during the consultation process, and the changes that Gippsland Water has made from the draft Water Plan. This final Water Plan will now form the basis for seeking approval from the ESC of proposed prices for the regulatory period.

### **1.1 OVERVIEW OF REVENUE REQUIREMENT AND ANNUAL PRICE CHANGE**

In developing the Water Plan, Gippsland Water has considered a significant range of inputs derived from various sources. Foremost among these inputs are the obligations that are imposed on Gippsland Water by the Victorian Government and a range of regulators. These obligations include:

- A Statement of Obligations issued by the Minister for Water;
- Requirements outlined by the Department of Sustainability and Environment (DSE);
- Various obligations imposed by the Environment Protection Authority (EPA);

- Various obligations imposed by the Department of Human Services (DHS);
- Various obligations imposed by the Essential Services Commission (ESC);
- Undertakings with the West Gippsland Catchment Management Authority (WGCMA); and
- Undertakings with Sustainability Victoria.

These obligations are significant for several reasons, not the least of which is that they are in most instances mandatory requirements. A number of these obligations are relatively new, and Gippsland Water has been required to include expenditure in these areas for the first time in this Water Plan. While a full discussion of these issues can be found in section 5, the link to an increasing revenue requirement needs to be clearly understood – Victorian Government and regulatory agencies continue to expect higher standards of performance, over a wider range of water and wastewater related issues than ever before. Such requirements can be met by Gippsland Water, but to do so in many instances requires additional resources to ensure that the outcomes sought can be achieved.

Given the current drought, and continued discussion in relation to climate change and climate variability, Gippsland Water's customers would also expect Gippsland Water to seriously review the security of future water supplies, and ensure that projects that secure the supply of water across the region are included in revenue requirements in this Water Plan. Gippsland Water supplies a number of major industries of State and National significance, including power generation, paper manufacture and large dairies. These industries consume more than 70% of the water supplied by Gippsland Water and require a high security of supply. Given Central Gippsland's resource-driven economy and large reserves of coal and timber, future growth of these large water consumers must be catered for, together with consideration for new major industry.

Gippsland Water has recently completed a significant review of the region's water supply security, and has developed a Water Supply Demand Strategy (WSDS) for the region. This WSDS presents a series of actions to sustainably manage and meet the water needs of the region serviced by Gippsland Water over the next 50 years, and was completed with significant consultation from local communities. Gippsland Water's major industrial customers provided 50 year demand projections as a key input to the supply-demand forecast for Gippsland Water's major Moondarra system. These projections include savings from water conservation measures currently being implemented by two of Gippsland Water's major customers.

The WSDS for the Gippsland Water region achieves five key aims:

- Builds on actions identified in the Central Region Sustainable Water Strategy (a Victorian Government strategy released in late 2006 - with input from Gippsland Water);
- Determines the expected available water supply to meet water demand, based on a medium climate change scenario and also a step change reduction in water supplies;
- Forecasts the expected long-term water demand for the Gippsland Water region;
- Identifies the range of potential water supply-demand options and assesses these against economic, environmental and social criteria; and
- Recommends a series of actions to sustainably manage and meet the region's water needs over the next 50 years.

Over the past 10 years, river inflows to Gippsland Water's supply systems have been 21 per cent less than the long term average, with inflows over the past year at a record low. The reduced inflows mean that reliability of water supplies is reduced. A "continued low inflow" scenario, based on streamflow over the past 10 years, was used to assess Gippsland Water's future water supply. Given the high security of supply required by Gippsland Water's major industrial customers, a "continued low inflow" scenario was adopted for planning purposes. Whether recent low inflows are attributable to climatic variability or a climate step change, Gippsland Water needs to plan short, medium and long term responses assuming continued low inflows. Record low inflows in the past year highlight the potential for future yields even lower than the continued low inflow scenario.

Gippsland Water has included in this Water Plan expenditures required to achieve all WSDS actions identified during the regulatory period, with the exception of those actions required to secure the supply of water to the Moondarra system. This issue is discussed at length in section 1.5.

Further support for the expenditure outlined in this Water Plan was derived from the Victorian Government's Country Towns Water Supply and Sewerage (CTWSS) Program that aims to improve water and sewerage services to small towns in regional Victoria. In the Gippsland region, the three towns identified are Loch Sport (water and wastewater services), Coongulla (wastewater service) and Glenmaggie (wastewater service). In developing the revenue requirement for this Water Plan, Gippsland Water has taken into consideration the provision of these services to each town in the regulatory period.

Having considered all of these inputs in the development of this Water Plan, Gippsland Water has detailed in Table 1 an overview of the revenue requirement for Gippsland Water to meet its obligations and deliver the required services over the regulatory period. The revenue requirement consists of several components, namely:

- "Operating expenditure" which represents the expenditure outlined in section 5.2 that Gippsland Water believes should be incurred to ensure the delivery of obligations during this period;
- "Return on assets to 30/6/08" which represents a cost of capital return, based on an agreed weighted average cost of capital value of 5.1%, on pre-existing assets, whether those assets were constructed during the first Water Plan period, or before the commencement of regulation by the ESC in 2005/06;
- "Regulatory depreciation of assets to 30/6/08" which represents the costs associated with the use, wear and tear of pre-existing assets;
- "Return on new " which represents a cost of capital return, based on an agreed weighted average cost of capital value of 5.1%, on assets to be constructed during this period, the details of which are outlined in section 5.3; and
- "Regulatory depreciation on new assets" which represents the costs associated with the use, wear and tear of new assets brought into service during this period.

**Table 1: Revenue Requirement**

**Revenue requirement detail**

SECOND REG PERIOD				
2009 2008-09	2010 2009-10	2011 2010-11	2012 2011-12	2013 2012-13

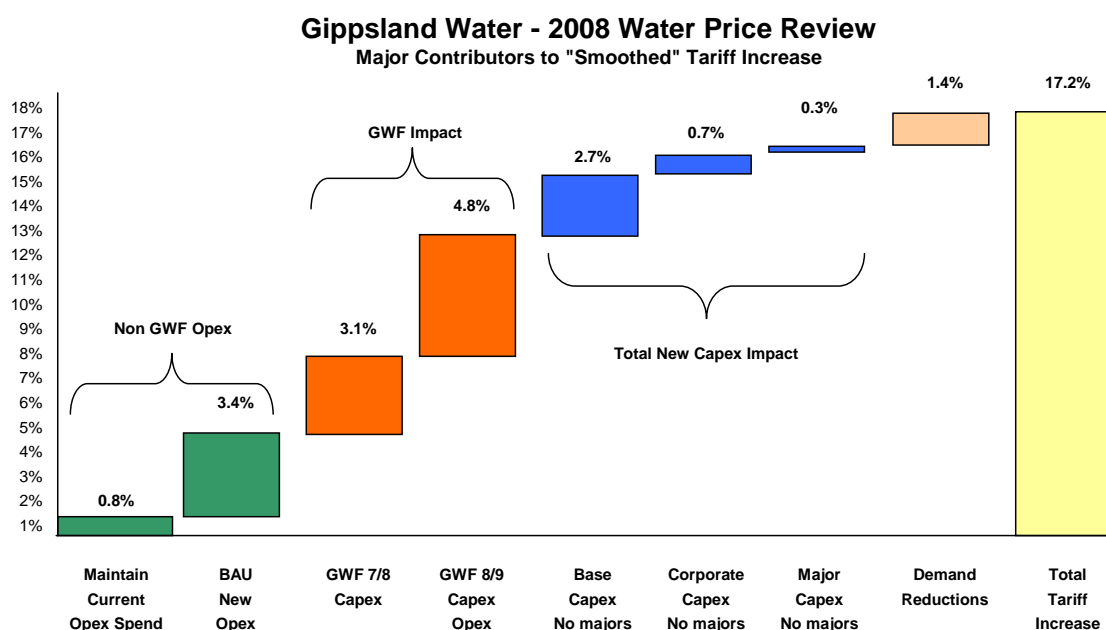
**Revenue requirement and RAV outputs**

Revenue requirement					
Operating expenditure	51.10	55.39	55.54	56.81	57.07
Return on assets to 30/6/08	16.87	16.44	16.01	15.57	15.14
Regulatory depreciation of assets to 30/6/08	7.81	7.81	7.81	7.81	7.81
Return on new assets	1.40	3.47	4.87	6.91	9.26
Regulatory depreciation of new assets	0.67	1.70	2.45	3.46	4.58
Adjustments from last period	-	-	-	-	-
Benchmark tax liability	-	-	-	-	-
<b>Total revenue requirement</b>	<b>77.84</b>	<b>84.80</b>	<b>86.67</b>	<b>90.56</b>	<b>93.86</b>

The total revenue requirement increases from a base of \$77.8m in 2008/09 to total of \$93.9m in 2012/13. This increase of \$16.0m from the 2008/09 year stems from a \$6.0m increase in operational expenditure over the period, combined with an \$11.8m increase resulting from movements in new assets (return on new assets and regulatory depreciation). Gippsland Water will deliver a capital asset program with a gross value of more than \$250m during this regulatory period, as outlined in section 1.3.

Figure 1 shows how each component of Gippsland Water’s revenue requirement results in the 17.2 per cent “smoothed” increase in prices. It shows that the Gippsland Water Factory (GWF) and forecast new capital program contribute largely to the price increase. Smoothed and moderated tariff increases are discussed in more detail in section 1.4.

**Figure 1: Major contributors to “Smoothed” tariff increase**



## 1.2 OVERVIEW OF KEY OUTCOMES FOR THE PERIOD

Gippsland Water’s commitment to providing the highest standard of products and services possible to our customers remains a major driver of our operational strategy. Gippsland Water undertakes a holistic approach towards customer relationship management to ensure we maintain our knowledge of the changing needs and expectations of our customers. Gippsland Water has adopted a planned and phased approach to customer relationship management. Our strategy focuses on the many issues, systems and processes that need to be addressed in order to meet the ever changing needs and expectations of our customers and the environment in which we operate.

We will continue to work closely with our various consultative committees and focus groups in order to honour our commitment to exceeding the service standards outlined. Despite the fact that Gippsland Water serves a large geographical area with many remote communities, we continue to exceed the tight response and restoration of service timeframes set within the Charter.

Gippsland Water has outlined proposed targets for service standards during the regulatory period. Separate tables are provided for Water, Waste and Customer service standards.

**Table 2: Proposed Water Standards**

KPI No	Key Performance Indicator	Unit of Measure	Water Plan 1 2006/07 Target	Average over past three years	2008/09 Target	2009/10 Target	2010/11 Target	2011/12 Target	2012/13 Target
<b>Water</b>									
1	Unplanned water supply interruptions	per 100km	55.0	35.8	45.0	45.0	45.0	45.0	45.0
2	Average time taken to attend bursts and leaks (priority 1)	minutes	40.0	47.3	40.0	40.0	40.0	40.0	40.0
3	Average time taken to attend bursts and leaks (priority 2)	minutes	150.0	224.4	150.0	150.0	150.0	150.0	150.0
4	Unplanned water supply interruptions restored within 5 hours	per cent	97.8%	91.8%	97.8%	97.8%	97.8%	97.8%	97.8%
5	Planned water supply interruptions restored within 5 hours	per cent	87%	79.9%	87.0%	87.0%	87.0%	87.0%	87.0%
6	Average unplanned customer minutes off water supply	minutes	8.0	9.2	8.8	8.8	8.8	8.8	8.8
7	Average planned customer minutes off water supply	minutes	65.4	20.6	40.0	40.0	40.0	40.0	40.0
8	Average frequency of unplanned water supply interruptions	number	0.07	0.09	0.09	0.09	0.09	0.09	0.09
9	Average frequency of planned water supply interruptions	number	0.50	0.12	0.50	0.50	0.50	0.50	0.50
10	Average duration of unplanned water supply interruptions	minutes	118.7	98.4	118.7	118.7	118.7	118.7	118.7
11	Average duration of planned water supply interruptions	minutes	130.8	175.2	130.8	130.8	130.8	130.8	130.8
12	Number of customers experiencing more than 5 unplanned water supply interruptions in the year	number	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Unaccounted for water	per cent	15.0%	13.1%	14.5%	14.5%	14.3%	14.2%	14.1%

Please note that definitions for all water standards are provided in Appendix 5. NR means “Not recorded”.

**Table 3: Proposed Waste Service Standards**

KPI No	Key Performance Indicator	Unit of Measure	Water Plan 1 2006/07 Target	Average over past three years	2008/09 Target	2009/10 Target	2010/11 Target	2011/12 Target	2012/13 Target
<b>Sewerage</b>									
14	Sewerage blockages	per 100 km	25.0	26.5	25.0	25.0	25.0	25.0	25.0
15	Average time to attend sewer spills and blockages	minutes	35.0	90.9	35.0	35.0	35.0	35.0	35.0
16	Average time to rectify a sewer blockage	minutes	130.0	105.6	130.0	130.0	130.0	130.0	130.0
17	Spills contained within 5 hours	per cent	98.0%	99.9%	98.0%	98.0%	98.0%	98.0%	98.0%
18	Customers receiving more than 3 sewer blockages in the year	number	0.0	-	0.0	0.0	0.0	0.0	0.0

Please note that definitions for all waste standards are provided in Appendix 5

**Table 4: Proposed Customer Service Standards**

KPI No	Key Performance Indicator	Unit of Measure	Water Plan 1 2006/07 Target	Average over past three years	2008/09 Target	2009/10 Target	2010/11 Target	2011/12 Target	2012/13 Target
<b>Customer Service</b>									
19	Complaints to EWOV	per 1000 customers	0.70	0.27	0.70	0.70	0.70	0.70	0.70
20	Telephone calls answered within 30 seconds	per cent	80.0%	84.3%	80.0%	80.0%	80.0%	80.0%	80.0%

Please note that definitions for all customer service standards are provided in Appendix 5

**Table 5: Proposed Additional Service Standards**

KPI No	Key Performance Indicator	Unit of Measure	Water Plan 1 2006/07 Target	Average over past three years	2008/09 Target	2009/10 Target	2010/11 Target	2011/12 Target	2012/13 Target
<b>Additional Service Standards</b>									
21	Average time taken to attend bursts and leaks (priority 3)	minutes	2,300.0	2,614.4	2300.0	2300.0	2300.0	2300.0	2300.0
22	Population receiving water meeting E.coli standards	per cent	100.0%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%
23	Population receiving water meeting Disinfection by-products standards	per cent	100.0%	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%
24	EPA Discharge Quality licence compliance	per cent	100.0%	99.3%	100.0%	100.0%	100.0%	100.0%	100.0%
25	Population receiving water meeting Turbidity standards	per cent	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Please note that definitions for all additional service standards are provided in Appendix 5

In summary, Gippsland Water has adopted the following approach when setting proposed targets:

- Where targets agreed with the ESC for the first regulatory period have not been met, these targets are proposed for this regulatory period;
- Where targets agreed with the ESC for the first regulatory period have been met, and conditions in the foreseeable future will allow for this standard to be maintained, Gippsland Water has proposed reduced targets for this regulatory period; and
- Where targets agreed with the ESC for the current regulatory period have been met, but conditions in the foreseeable future will not allow for this standard to be maintained, Gippsland Water has detailed the rationale behind maintaining targets at current levels, or at levels between the actual achievement for the past three years and the initial targets.

A full discussion of each service standard and the reasons behind the adoption of the proposed targets is included in section 4.5 of this Water Plan.

The ESC reviewed the draft Water Plans and templates received from water businesses and identified a number of general issues that all businesses were asked to have regard to prior to the submission of final Water Plans.

From a Gippsland Water perspective, of particular note was the ESC's guidance in relation to a number of initiatives or programs that businesses propose to implement over the regulatory period, for example, reductions in greenhouse emissions, the use of green energy, biosolids reuse, providing services to small towns and the replacement of water meters in rural systems. The ESC indicated that these programs are often linked to and are significant drivers of expenditure proposals set out in the Water Plans. The ESC indicated that it expected businesses to identify outcome based targets for these programs in their final water plans and in the service standards sheet of the financial template.

At a minimum the ESC indicated that they would expect water businesses to provide targets for the following initiatives that were not covered by the service standards Gippsland Water outlined in the draft Water Plan:

- greenhouse gas reductions/green energy (CO<sub>2</sub> equivalent emissions);
- recycled water (%);
- biosolids reused (%);
- number of sewer backlog (or small town sewerage scheme) property to be serviced.

Gippsland Water does have targets in place for several of these initiatives. The exception at present is greenhouse gas reductions. Gippsland Water has initiated work in conjunction with Sustainability Victoria to determine greenhouse targets during the 2007/08 year. Proposed targets for all other initiatives are detailed in Table 6.

**Table 6: New ESC Targets**

Target	08/09	09/10	10/11	11/12	12/13
Greenhouse gas reductions/green energy (c02 equivalent emissions)	TBD	TBD	TBD	TBD	TBD
Recycled water (%)	10%	20%	20%	20%	20%
Stabilised biosolids reused (%)	100%	100%	100%	100%	100%
Number of small town sewerage scheme properties to be serviced (Assumes connection in year after scheme completed.08/09-Seaspray, 11/12-Glenmaggie)	330	0	0	77	0
Number of sewer backlog properties to be Serviced	0	17	16	15	5

Footnote: TBD abbreviation for "to be determined"

## 1.3 OVERVIEW OF EXPENDITURE FORECASTS

### 1.3.1 OPERATIONAL EXPENDITURE

Gippsland Water's forecasts for operating expenditure for each year of the regulatory period are detailed in Table 7. In developing the Water Plan, Gippsland Water has considered a significant range of inputs derived from various sources. Foremost among these inputs are the obligations that are imposed on Gippsland Water by the Victorian Government and a range of regulators.

**Table 7: Operating Expenditure Forecast**

#### Operating Expenditure forecast

	SECOND REG PERIOD					
	2008 2007-08	2009 2008-09	2010 2009-10	2011 2010-11	2012 2011-12	2013 2012-13
<b>Operating Expenditure Summary</b>						
Business as Usual	40.47	48.31	52.58	52.72	53.99	54.25
Licence fees	0.59	0.59	0.62	0.62	0.62	0.62
Environmental Levy	2.03	2.20	2.20	2.20	2.20	2.20
<b>Total prescribed BAU opex</b>	<b>43.09</b>	<b>51.10</b>	<b>55.39</b>	<b>55.54</b>	<b>56.81</b>	<b>57.07</b>

A review of operating expenditure comparing past performance and requirements for the future will quickly reveal a significant step change in the operating costs for Gippsland Water from the 2008/09 financial year. In total, operating expenditure increases from a current forecast of \$43.1m in 2007/08, to \$51.1m in 2008/09, a one year increase of \$8.0m.

While significant, the increase should not be unexpected. A major component of the increase relates directly to the completion and implementation of the Gippsland Water Factory (which is discussed at length in section 3.2). The Gippsland Water Factory will be an innovative wastewater treatment and recycling system located at Morwell, and the first of its kind in Australia, highlighting Gippsland as a leader in sustainability and innovation.

The project will deliver a range of benefits for the Gippsland region including addressing the odour currently created by the open channel section of the Regional Outfall Sewer. The recycled water will benefit local industry, the environment and the community. The system will treat up to 35 million litres of domestic and industrial wastewater daily. At completion of the first stage of the project, the Gippsland Water Factory will produce around 8 million litres of high quality recycled water each day for use by local industry.

In addition to the Gippsland Water Factory, spending in relation to a number of current obligations will have a significant impact on operating costs. In reviewing operational expenditure proposed for the period, significant expenditure was identified that related to current obligations, and efforts to meet the requirements of these obligations. Of particular note is that in many cases, the expenditure does not form part of the business as usual expenditure from prior periods, but represents expenditure on current obligations that will occur for the first time in this regulatory period.

The operations of Gippsland Water require an interaction with the region's waterways, as our operations extract surface water from our rivers and creeks, groundwater from aquifers, and return treated water in some areas to these rivers and creeks. For the regulatory period, Gippsland Water has included a total of \$1.0m in operating expenditure to allow for "River Health" initiatives to support catchment management and groundwater obligations. These obligations are current obligations, but the spending outlined will occur for the first time in this period. Initiatives include:

- Understanding the ecosystem impacts of 17 weirs - \$0.3m;
- Development of fish passages (priority sites) - \$0.4m;
- Funding of a study into the health of the Tyers River - \$0.2m; and
- Funding of a study into potable water yield impact on aquifer health - \$0.1m .

Gippsland Water has also identified a number of new requirements in consultation with the DSE, and in relation to the Water Governance Act. Gippsland Water has included a total of \$0.4m in operating expenditure for these issues. Again, these are current obligations, but the spending outlined will occur for the first time in this period. Initiatives include:

- Condition surveys on the effects of works on flora and fauna in relation to the New Holland Mouse, and Wellington Mint Bush. The Dutson Downs property contains populations of the endangered New Holland Mouse, and the vulnerable Wellington Mint Bush - \$0.2m;
- Development of a Dutson Downs wetlands management strategy. Minor wetlands have been identified on Dutson Downs that have been heavily impacted by past activities - \$0.1m; and
- Development of management tools to ensure that waste management, agribusiness and biodiversity management activities, including the development of a GIS based map of the ecological status of land units on the property, to ensure that proposed activities do not interfere with sensitive ecosystems. - \$0.1m.

Gippsland Water has also identified a number of new requirements in consultation with the EPA. Gippsland Water has included a total of \$0.6m in operating expenditure for these issues. Again, these are current obligations, but the spending outlined will occur for the first time in this period. Initiatives include:

- Morwell River and Wetlands health survey - \$0.2m; and
- Additional sampling and testing in relation to waste water treatment plant “mixing zones” - \$0.4m.

Gippsland Water has also identified a number of new, or recently introduced but financially significant requirements, in consultation with the DHS. Gippsland Water has included a total of \$1.2m in operating expenditure for these issues. Again, these are current obligations. Initiatives include:

- Development of risk management plans / CRC eWater project - \$0.2m; and
- Ongoing provision of fluoridation - \$1.0m.

It should be noted that the costs of fluoridation were incurred for the first time during the 2005/06 financial year, but for comparative purposes, these costs will only be evident for the first time in a full financial year, from 2006/07.

Gippsland Water has responsibility for several dams in the region, including the major storage facility located at Moondarra, and several other strategically located storage facilities that support the provision of water to industry and residential customers. Gippsland Water is obligated to ensure that dam safety at these facilities is in compliance with ANCOLD guidelines. Gippsland Water has included a total of \$0.8 m in operating expenditure for these issues. Again, these are current obligations. Initiatives include:

- Reviews of Dam safety compliance and seismic studies - \$0.2m, and
- Desktop Design Review - \$0.6m.

While on an individual basis, none of the expenditure outlined in relation to new spending on current obligations is significant, the combined value of this expenditure is \$4.0m in total, or an average of \$0.8m per annum in Gippsland Water’s operational expenditure for the period.

During the development of operational expenditure requirements for this Water Plan, Gippsland Water has identified several issues, which while part of “business as usual” expenditure, were considered to be significantly in excess of normal operational requirements. These increases in expenditure stem from changes in circumstances, which are outlined in further detail below.

Gippsland Water has undertaken a condition assessment review of these lagoons, which has identified a need for a planned approach to lagoon desludging requirements, rather than the ad-hoc approach that has been in operation previously. While a considerable step forward in terms of the management of this activity, the recognition of the need to plan more professionally in this area has seen a significant increase in costs associated with lagoon desludging requirements. The impact of this on operational expenditure during this regulatory period is significant. Gippsland Water has included a total of \$0.5m in operating expenditure for this issue.

Gippsland Water has identified a significant increase in relation to the treatment of biosolids. The main drivers for this are increased work in relation to the handling of wastes removed from water and waste treatment processes, and costs attributable to the handling of wastes from the Gippsland Water Factory.

Gippsland Water has concerns in relation to the cost of electricity, and the significant increases that are currently being flagged by the electricity industry. Advice received by Gippsland Water has led to the inclusion of a 20% increase in the cost of electricity from the 2009/10 year, followed by an additional 5% increase in 2011/12 year. These increases add a combined total of \$1.3m to operating costs during this period, which are accounted for as follows:

- Water Factory impact - \$0.8m; and
- Other business impact - \$0.5m.

While a full discussion in relation to operational expenditure is included in this Water Plan in section 5.2, Table 8 summarises the major contributors to increases in operating expenditure across the period.

**Table 8: Operating Expenditure – major contributors to increases across the regulatory period**

	SECOND REG PERIOD						
	Actual 2006-07	2007-08	2009 2008-09	2010 2009-10	2011 2010-11	2012 2011-12	2013 2012-13
<b>Total Operating Expenditure</b>	42.09	43.09	51.10	55.39	55.54	56.81	57.07
Movement from previous year		0.99	8.01	4.29	0.14	1.28	0.25
<b>Major Factors</b>							
GWF Stage 1			3.40	3.50	0.40	0.40	-
Maintenance/ Contractors			1.50	-	-	-	-
Environment			0.60	-	-	-	-
Biosolids			0.40	-	-	-	-
Dam Safety			0.20	-	-	-	-
Labour			-	0.30	0.45	0.40	0.40
Land Services			0.20	-	-	-	-
Energy			-	0.40	-	-	-
Minor Maintenance			0.34	-	-	-	-
Native Vegetation Credits			0.53	0.40	0.38	0.36	0.36

### 1.3.2 CAPITAL EXPENDITURE

In developing the capital plan for this period, Gippsland Water has recognised the outputs of several long term reviews that have determined a need for capital investment in the region. In particular, Gippsland Water has looked to ensure that this capital plan is consistent with the actions outlined by the Victorian Government in the Central Region Sustainable Water Strategy (CRSWS), which was released in November 2006. Expenditure of note in this area relates to the Gippsland Water Factory, and the further review of water supply projects to augment the Latrobe system.

In addition, Gippsland Water has recently completed a Water Supply Demand Strategy (WSDS) for the region. This WSDS is a 50 year forward look at water supply systems, and the demand supply balance for these systems, across the region. Working from the platform provided by the

CRSWS, the WSDS detailed a number of actions, including timelines for the implementation of these actions that were required to be undertaken to ensure security of supply into the future.

Further support for the expenditure outlined was derived from the Victorian Government's CTWSS Program that aims to improve water and sewerage services to small towns in regional Victoria. In particular, the objectives of the program were to improve the quality of water and sewerage services in country towns currently experiencing environmental and public health impacts. Several towns in the region were identified as priority towns under the program. The expenditure related to this program features clearly in the list of the more significant projects or programs outlined below.

Gippsland Water has ongoing programs for the addition and renewal of water reticulation and waste reticulation systems. Asset renewal includes replacing or rehabilitating deteriorated assets to return them to a condition whereby they can deliver their required level of service. This expenditure is significant, and is supported by detailed reviews of asset condition and robust forward planning. Planning takes into consideration both proposals for regional development that demand additional works, and risk analysis related to condition and failure predictions for existing infrastructure renewals.

**Table 9: Capital Expenditure Forecast**

	SECOND REG PERIOD				
	2009 2008-09	2010 2009-10	2011 2010-11	2012 2011-12	2013 2012-13
<b>Capital Expenditure forecast</b>					
<b>Gippsland Water</b>					
<b>Capital Expenditure Summary</b>					
Water	17.71	14.32	18.88	20.82	26.32
Sewerage	39.23	17.93	23.58	36.07	36.42
Bulk water	-	-	-	-	-
Recycled water	-	-	-	-	-
Rural water	-	-	-	-	-
<b>Total GROSS prescribed BAU capex</b>	<b>56.93</b>	<b>32.26</b>	<b>42.45</b>	<b>56.89</b>	<b>62.74</b>
<i>Less</i>					
Government contributions	-	0.39	6.80	0.39	-
Customer contributions	1.37	4.07	4.29	1.91	16.92
<b>Total Contributions</b>	<b>1.37</b>	<b>4.46</b>	<b>11.09</b>	<b>2.31</b>	<b>16.92</b>
<b>Total NET prescribed BAU capex</b>	<b>55.56</b>	<b>27.80</b>	<b>31.37</b>	<b>54.58</b>	<b>45.82</b>

Details of the more significant projects or programs included in this forecast (but excluding prior period expenditure) are as follows:

- Loch Sport Servicing Project - \$45.0m, expected completion date 2012/13;
- Coongulla Waste System Project - \$14.3m, expected completion date 2012/13; and Glenmaggie Waste System Project - \$6.2m, expected completion date 2011/12;
- Sewer Pump Station Rehabilitation and Improvement Program - \$10.0m;
- Water Reticulation System Renewals Program - \$10.5m;
- Sewer Reticulation System Renewals Program - \$6.0m;
- Moe Groundwater Project - \$8.0m, expected completion date 2012/13;
- Warragul – Moe Interconnection Project - \$8.0m, expected completion date 2013/14;

- Shared Assets (regional development) - \$6.9m;
- Gippsland Water Factory: Micro Hydro / Bio Gas Projects - \$4.3m, expected completion date 2008/09; and
- Gippsland Water Factory: Amenities Facility - \$4.9m, expected completion date 2008/09.

While the projects or programs listed are the top ten projects in terms of capital investment, and will be of significant interest to the community, some additional capital projects, while less significant in terms of the level of expenditure are equally significant to small local communities. Projects that Gippsland Water considers are of this nature, and will be completed during the period include:

- Boolarra water supply augmentation – a project to connect the Boolarra township to the Moondarra water supply system, which currently ceases at Yinnar (\$2.2m);
- Drouin Wastewater Treatment upgrade (\$3.4m);
- Mirboo North – Groundwater augmentation (\$1.7m);
- Sale Water Treatment Plant upgrade (\$3.7m);
- Seaspray – Raw Water Storage Basin (0.9m);
- Thorpdale – Groundwater augmentation (\$0.7m); and
- Warragul – Groundwater augmentation (commencement) (\$1.5m).

A full discussion in relation to capital expenditure is included in this Water Plan in section 5.3.

### **1.3.3 CHANGES IN PROPOSED EXPENDITURE FROM DRAFT WATER PLAN**

During the community consultation process with regulators and the general public, Gippsland Water has not identified any major changes that will be made in response to feedback received during the consultation process. Indeed, from a financial perspective only two issues have been identified during the consultation process, both in discussion with the DSE.

In the draft Water Plan, Gippsland Water identified \$1.1m of operating costs that had been allocated toward addressing a backlog of easement creations across the region (refer draft Water Plan section 1.3.1, p14). Advice received from DSE since the release of the draft Water Plan now indicates that DSE considers that the costs of registering easements for any existing water or sewerage infrastructure on private land that is not inside a registered easement, are likely to outweigh the benefits. DSE sought to ensure that future water and sewerage infrastructure should not be laid on private land unless it is inside a registered easement. On the basis of this advice, Gippsland Water has decided to remove \$1.1m in the final Water Plan from the operating budget for the 2008-2013 regulatory period.

DSE has also advised that Gippsland Water's estimates in relation to government contributions for CTWSS Program projects at Loch Sport, Coongulla and Glenmaggie exceeded DSE expectations. DSE specifically advised that funding for the Loch Sport project would not exceed \$6.8m, a reduction from the \$8.0m which Gippsland Water had estimated. In addition, funding for the combined Coongulla / Glenmaggie projects would not exceed \$0.785m, again a reduction from the \$1.0m which Gippsland Water had estimated. Gippsland Water has adjusted government contributions to reflect the advice received from DSE. This change will increase the net cost of the capital program by \$1.415m for the 2008-2013 regulatory period.

Since the release of the draft Water Plan, Gippsland Water has itself identified some limited opportunities to reduce operational expenditure. While minor when compared to overall operational expenditure for the regulatory period, reductions of \$1.1m have been made in the final Water Plan.

Gippsland Water has also identified a new area of operational expenditure during the consultation period in relation to the costs of developing or purchasing native vegetation credits to offset the clearing of native vegetation during major infrastructure projects. Funding for the purchase and maintenance of native vegetation credits was not considered in the draft Water Plan.

The issue was identified when Gippsland Water was required to enter into its first formal agreement for an environmental offset, on this occasion for work being undertaken in relation to the disturbance of native vegetation associated with the pipeline route for the Gippsland Water Factory.

The native vegetation credits scheme has been put in place as part of the Victorian Government's Native Vegetation Management Framework, which seeks to:

- Avoid vegetation clearance through project selection and location;
- Minimizing impacts through design and management; and
- Mitigating any losses through appropriate offsets.

The significance of the costs of this process, and the likelihood that future infrastructure works across the region will require the establishment of further environmental offsets has required Gippsland Water to provide for these costs in the draft Water Plan.

For the purposes of this final Water Plan, Gippsland Water has determined that it will limit the value of this native vegetation credits provision to the net reduction outlined above in respect of easements, government funding for CTWSS, and other minor reductions. In total, \$2.0m has been set aside in this final Water Plan. This approach allows Gippsland Water to:

- raise awareness of the emerging issue of native vegetation credits, and include funding for this issue in operational expenditure; and
- maintain the total revenue requirement and proposed tariffs at the same levels as those outlined to the general public during the public consultation process on the draft Water Plan (to do otherwise, and promote a new set of tariffs in the final Water Plan would only serve to confuse and perhaps concern the general public).

This approach also allows the ESC to understand the significance of this issue to Gippsland Water. The veracity of the provision proposed for native vegetation credits will be tested by the ESC during the water plan audit assessment process.

## **1.4 OVERVIEW OF PROPOSED TARIFF STRUCTURES**

Gippsland Water has reviewed the existing tariff structure, and has determined that no changes will be made in the proposed tariff structure contained in this Water Plan.

Gippsland Water has consulted with customer focus groups on a range of issues during the preparation of this Water Plan, including an inclining block tariff structure, and a residential volumetric waste water charge.

Focus group participants were in favour of introducing inclining block tariffs providing that larger families were not disadvantaged. The positives of inclining block tariffs were identified as encouraging water savings/recycling, making people appreciate the value of water and penalising water wasters. Providing the introduction is “revenue neutral” to Gippsland Water, appropriate usage and inclining blocks should be designed to suit as many customers as possible, so that fewer customers are disadvantaged should the new tariff system be introduced. Larger families were thought to be disadvantaged by an inclining block tariff.

A two part tariff for waste water, with a fixed annual charge and a variable charge based on the amount of waste water discharged from the home, was more difficult for focus group members to comprehend and therefore customers indicated a preference to remain with the fixed annual charge for waste water. Participants thought the only fair way of measuring water discharged from the home was to install meters. Basing the amount of waste water leaving the home on a percentage of the water entering the home was not considered to be accurate because of the amount of grey water used outside the home and the different (aged) waste water systems people had installed.

The focus groups realised that the positives of a variable waste water charge were to encourage people to reuse water, and by using less water initially, less water would leave their homes, overall costs would be reduced and water saved. However, the method for actually measuring and charging for the waste water was unclear to the customers. Larger families were thought to be disadvantaged by a volumetric waste water charge. It was felt that both inclining block tariffs and a variable waste water tariff could not be introduced together as the expected increases in invoicing costs would also disadvantage limited income families.

Given this support from the focus groups, Gippsland Water included a series of questions on inclining block tariffs in a recently completed customer satisfaction survey. Feedback from the survey, which was conducted by phone with 375 Gippsland Water customers, provides a far less conclusive picture. 44% of the participants surveyed preferred an inclining block tariff structure, while 38% preferred the current tariff structure. Significantly, 18% of the participants were undecided.

Since the release of the draft Water Plan, Gippsland Water has conducted a large scale customer survey, targeting all customers, to better understand the support within the customer base for an inclining block tariff structure.

During a two week period, more than 2,100 customer surveys (representing a 3.5% response) were returned to Gippsland Water for analysis and consideration. In relation to inclining block tariffs, the findings of the customer survey were as follows:

- 53% indicated that IBTs should be introduced;
- 32% indicated that IBTs should not be introduced; and
- 15% indicated that they were undecided.

In responding to a question on the advantages of inclining block tariffs:

- 68% indicated that IBTs fostered a “use less then pay less” arrangement;
- 64% indicated that IBTs “encouraged water saving/recycling”; while
- 57% indicated that IBTs would “penalise water wasters”.

In responding to a question on the disadvantages of inclining block tariffs:

- 59% indicated that IBTs were “not fair for larger families”; while
- 54% indicated that IBTs were “not fair for low income families”.

The findings of this customer survey align closely with the phone based customer satisfaction survey, and contrast significantly with the very strong focus group support for the introduction of an inclining block tariff structure. Based on the results of this more significant sample, and the lack of any conclusive outcome, Gippsland Water has determined that it will not seek to introduce an inclining block tariff structure during the period of this Water Plan.

Gippsland Water acknowledges that the Victorian Government has recently requested the ESC to conduct an inquiry into tariff structures for the Victorian water industry. The terms of reference for this inquiry include an examination into but not limited to the following tariff reforms:

- increasing reliance on volumetric as distinct from fixed charging for water consumption;
- combining volumetric charging for residential and non-residential water and sewerage services; and
- moving from 3 to 4 tier block volumetric charging for residential water customers

Gippsland Water understands that the ESC has been asked to submit a final report on the issue of tariff structures by 14 December 2007. The outcome of this process may impact on tariff structures finally adopted by Gippsland Water during this 2008 Price Review process.

In this Water Plan, Gippsland Water proposes to adopt a uniform tariff increase across all water and waste water charges during each year of the regulatory period. In other words, all tariffs in a particular year will increase by the same percentage in that year. In determining the annual increase for each year of the regulatory period, Gippsland Water has reviewed the impacts of applying several different approaches which all recover the revenue requirement over the regulatory period, but have different impacts on customers:

- A “smoothed” approach, in which the increase is the same for each year of the regulatory period. This is a simple approach which does not reflect the timing of projects and expenditure across the period, and would require tariffs at the end of the regulatory period to be raised to significantly elevated levels when compared to other options;
- An “as revenue required” approach, in which tariff increases move in line with revenue requirements. This approach mirrors the timing of major expenditures, but would require a substantial tariff increase in the first year of the regulatory period, compared with tariffs for 2007/08, before reducing to small increases each year for the remainder of the regulatory period; and
- A “moderated” approach, which aims to recover the total revenue requirement during the regulatory period, while attempting to address the issues raised in the other options. This moderated approach reduces the substantial tariff increase in year one by spreading

the impact over the first two years, with modest increases for the remaining three years of the regulatory period. This approach also reduces the tariff at the end of the regulatory period, when compared to the “smoothed” approach.

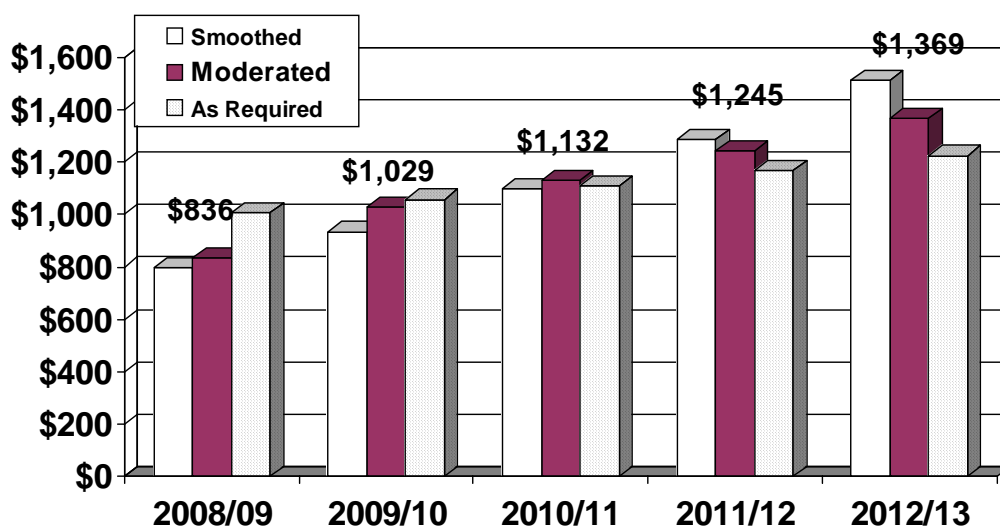
After consideration of these approaches, Gippsland Water has adopted the “moderated” approach in this Water Plan. Table 10 illustrates the impact of the “moderated” approach on a number of key water and wastewater tariffs, and also provides a comparison to tariffs for 2007/08, which were approved by the ESC in May 2007.

**Table 10: Key Water and Wastewater Tariffs– Moderated Approach**

\$Jan 07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Water</b>						
Service Availability Charge - 20mm	81.56	100.07	122.77	135.05	148.55	163.41
Volumetric Charge - per KI	0.9432	1.1572	1.4198	1.5617	1.7179	1.8897
<b>Wastewater</b>						
Service Availability Charge - connected	383.62	470.66	577.45	635.20	698.72	768.59

During the community consultation phase Gippsland Water used the following chart (Figure 2) to demonstrate to participants the impact that these proposed tariffs, set using the “moderated approach” outlined above would have on an average annual household bill during the regulatory period. At present the 2007/08 average annual household bill is approximately \$680 per annum. The impact of the proposed tariffs outlined in Table 10 will see this average bill increase to \$1369 per annum in the 2012/13 financial year.

**Figure 2: Moderated tariff impact on average annual household bill**



Gippsland Water has a significant number of tariffs in addition to the key water and wastewater tariffs detailed above. Section 7.2 of this Water Plan provides details of each tariff, and the proposed tariff movement during the regulatory period. These tariffs include those applicable in areas such as trade waste, land development and property connection fees.

## 1.5 DEALING WITH UNCERTAINTY

In the development of this Water Plan, Gippsland Water has been acutely aware of the significant uncertainty surrounding water supply shortfalls. This is in turn reflected in the requirement for a variety of short and long term augmentation options to deliver security of supply across the region, depending on the selection of either a “median climate change” scenario, or a “continued low inflows” scenario.

In electing to base this Water Plan on the “continued low inflows” scenario, Gippsland Water has ensured consistency with its recently released Water Supply Demand Strategy, and the Victorian Government’s Central Region Sustainable Water Strategy which also modelled the “continued low inflows” scenario.

The level of uncertainty with regard to security of supply is of such significance, and the potential levels of expenditure so large, that its handling in this Water Plan warrants serious discussion and a high level of understanding by all concerned.

Gippsland Water has adopted the approach that it is preferable to identify projects with significant levels of uncertainty and significant cost, and raise awareness of the issues surrounding these projects, without including these projects in proposed operating and capital expenditure plans. To do otherwise would generate a substantial revenue requirement, and a significant impact on tariff outcomes, which may not be justifiable in the longer term. Once full consideration can be given to all the issues, the selection from what are now a series of options will identify a preferred action.

While Gippsland Water has included several water supply augmentation projects, based on actions contained within both the Victorian Government’s Central Region Sustainable Water Strategy, and the Water Supply Demand Strategy (refer section 5.3.2), the major augmentation issue surrounding the Latrobe System has been excluded from operating and capital expenditure presented in this Plan.

Currently under development, the Water Security Investment Strategy for the Latrobe System is a long-term strategic response by Gippsland Water to the effects of reduced water yields in the Latrobe system.

The strategic analysis within the Water Security Investment Strategy for the Latrobe System identified supply augmentation as the strategy most likely to provide adequate security of supply to Gippsland Water, followed by Re-use and Recycling. External specialist consulting engineers were engaged to assist to further scope and cost the various projects within the two identified strategic options. These projects were:

### Supply Augmentation

- Seek a permanent bulk water entitlement (BWE) increase from Blue Rock Lake (“BWE increase”);
- Augmentation of the Moondarra Dam Wall (“Dam Wall extension”); and
- Access and transfer groundwater from Moe to the Latrobe System (“groundwater augmentation”).

## Re-use and Recycle

- Treat and reuse wastewater currently discharged via the ROS (“Gippsland Water Factory Stage 2”);
- Treat and reuse wastewater from the Saline Water Outfall Pipeline (SWOP) (“Desalination of SWOP”); and
- Treat and reuse wastewater from Australian Paper (“Desalinate AP waste stream”).

Work continues on the Water Security Investment Strategy for the Latrobe System, in particular around determining the cost of the projects listed, and the evaluation of these options using a triple bottom line approach, to account for social and environmental considerations, in addition to issues of a financial nature. In work undertaken to date, Gippsland Water has determined that the cost of a Latrobe System Investment will be significant. Estimates currently range from \$20m to \$150m in capital expenditure requirements alone. A review of potential operating costs has determined that an additional \$7m of operating expenditure would be required annually, depending on the option selected.

At their highest levels, these expenditures represent:

- An additional 58% on capital expenditure included within this Water Plan; and
- An additional 12% on operational expenditure included within this Water Plan.

As outlined, in this Plan Gippsland Water has adopted the approach that it is preferable to identify projects with significant levels of uncertainty and significant cost, and raise awareness of the issues surrounding these projects, without including these projects in proposed operating and capital expenditure plans. To do otherwise would generate a substantial revenue requirement, and a significant impact on tariff outcomes, which may not be justifiable in the longer term. Once full consideration can be given to all the issues, the selection from what are now a series of options will identify a preferred action.

Gippsland Water continues to work closely with the Victorian Government to ensure that issues surrounding the Latrobe system are clearly understood, and can be accounted for in the plans for long term water management across the state.

## **1.6 OVERVIEW OF CUSTOMER CONSULTATION**

Gippsland Water has established three customer committees that serve as a consultation point between the organisation, its community and its customers. These three groups meet quarterly and address the service delivery aspects of Gippsland Water's operations. There is an Environment and Customer Consultative Committee, the Dutson Downs Advisory Committee and the Coastal Advisory Committee.

Gippsland Water also undertakes various consultation programs for special projects including the Customer Charter, this Water Plan, the recently completed Water Supply Demand Strategy and the proposed amendment to the Merrimans Creek bulk water entitlement.

Gippsland Water conducts an independently facilitated customer satisfaction survey every 18 months with its residential customers. This survey contains question areas that optimise data capture opportunities in line with Water Plan commitments. Gippsland Water then creates an implementation plan for the results of each survey. This plan takes the key areas for

improvement that were identified in the survey results and has actions designed to address these. These results are also shared with Gippsland Water's Environment and Customer Consultative Committee which then makes recommendations for addressing these.

The latest customer survey was conducted during July 2007, when Gippsland Water commissioned Nexus Research to conduct a telephone customer survey to assess satisfaction levels.

The key areas the survey investigated included:

- Awareness of services provided by Gippsland Water;
- Satisfaction with water quality;
- Behaviour with drinking water;
- Satisfaction with wastewater services;
- Reactions to planned and unplanned interruptions;
- Satisfaction when contacting Gippsland Water;
- Satisfaction with Gippsland Water's environmental management;
- Satisfaction with billing and customer service;
- Awareness of public relations and educational materials;
- Overall satisfaction with Gippsland Water; and
- Comparison of Gippsland Water services with other providers.

In relation to overall satisfaction with Gippsland Water, respondents were asked to take everything into account and rate on a scale from '0' (extremely dissatisfied) to '10' (extremely satisfied) how satisfied they were with the way Gippsland Water meets all their needs. The average score generated by the total sample was 8.2, with 86% of respondents rating Gippsland Water a score of 7 or higher. This result was the same as the score recorded in the 2006 survey.

Gippsland Water seeks a combination of quantitative and qualitative research conducted by an independent research company, via in-depth interviews, with Gippsland Water's twelve major clients. This survey is conducted annually. The findings and actions arising from these annual surveys are included within the operating expenditure estimates of this Water Plan. The 2006 survey concluded that these major clients were generally happy and satisfied overall with the products and services received from Gippsland Water in the last 12 months, with few issues being identified. Major clients felt they worked well together with Gippsland Water, there was open communication, Gippsland Water were "good listeners" and regularly made contact or provided updates on information.

The level of satisfaction with the various aspects of service provided by Gippsland Water is high. The average overall level of satisfaction during 2006 was 8.1 (out of a maximum of 10), similar to the 8.2 recorded previously.

Gippsland Water holds community briefings regularly for several key projects. The most significant project currently is the Gippsland Water Factory project. There have been a

significant number of community information sessions held across Gippsland to date for the general public. There have also been over 20 presentations and briefings given to individual groups.

Community reference groups have been established for two key sewerage scheme projects (Coongulla and Loch Sport) and separate information sessions and meetings have been held for the Seaspray Sewerage Scheme which is currently being constructed. In addition to face-to-face community briefings, community information update newsletters are sent to each resident in the declared sewerage district to keep them informed about the project's progression.

As part of the development of this Water Plan, community consultation was required to engage Gippsland Water's customers and stakeholders to ensure that their expectations of Gippsland Water were understood. The consultation process was used as a vehicle for obtaining input through a two-way feedback process that would complement Gippsland Water's decision-making. Three focus groups were developed in conjunction with Nexus Research to support this community consultation process.

Focus groups were established across Gippsland Water's service areas in the eastern, central and western areas, and aimed to cover a broad demographic spread including pensioners and low income earners. Participants received a context-setting presentation about the key areas featured in the Water Plan, and were encouraged to ask questions about the information provided. Participants were able to take the information with them to formulate opinions and feedback for later discussion.

The participants were invited to discuss their understanding and perceptions of the proposed options for the Water Plan. Discussion and feedback was sought on four areas that Gippsland Water identified as of particular interest, given changing attitudes to water within the community. These four areas were:

- The introduction of inclining block tariffs for residential water consumption;
- The introduction of a volumetric waste water tariff for residential customers;
- Comment on service standards, including missing/new standards; and
- The introduction of guaranteed service levels.

Feedback from focus groups almost unanimously supported the introduction of both an inclining block tariff structure and the introduction of guaranteed service levels as these measures lend support to the conservation of water, and ensure that Gippsland Water strives to achieve service standards. As noted in section 1.4, given this support from the focus groups, Gippsland Water included a series of questions on inclining block tariffs in a recently completed phone based customer satisfaction survey, and a large scale customer survey completed during the consultation period.

### **1.6.1 CUSTOMER SURVEY**

Since the release of the draft Water Plan, Gippsland Water has conducted a large scale customer survey, targeting all customers, to better understand the support within the customer base for:

- the introduction of an inclining block tariff structure;
- the introduction of guaranteed services levels; and

- proposals to modify the future frequency and make up of water and sewerage bills.

Details of this latest customer survey in relation to inclining block tariffs, guaranteed service levels and billing cycles are discussed in detail in section 4.2.2.7. In summary, after considering feedback from the survey process, Gippsland Water has determined that it will not seek to introduce either inclining block tariffs or guaranteed service levels during this regulatory period. Further, customers have not displayed any desire to move from the current billing cycles, which will see Gippsland Water continue to issue three bills per annum.

## **1.6.2 COMMUNITY CONSULTATION ON DRAFT WATER PLAN**

Gippsland Water has undertaken significant consultation on the draft Water Plan since its release in late July 2007. Consultation commenced with a media release on 1st August 2007. Representatives from the Latrobe Valley Express and the Warragul Gazette attended a presentation, and question and answer session in Traralgon.

Six community consultation sessions were held across the region over the consultation period. Two sessions were provided at each location (afternoon and night) to encourage participation. Each consultation session consisted of a presentation by Gippsland Water on the draft Water Plan, and an open forum question and answer session to allow participants to gain a better understanding of the draft Water Plan. Attendance at the sessions were as follows:

- Morwell (9 August 2007): afternoon - 30 attendees; night – 16 attendees
- Sale (16 August 2007): afternoon - 2 attendees; night – 1 attendee
- Warragul (20 August 2007): afternoon - 9 attendees; night – 3 attendees
- Total attendance – 61

Gippsland Water made a significant amount of information available to customers at the consultation sessions, and via Gippsland Water's call centre and website. Customers were able to obtain the draft Water Plan (full version and executive summary, printed or on CD), a series of four Water Plan facts sheets, and a draft Water Plan comment form.

In addition, Gippsland Water's Environment and Customer Consultative Committee (ECCC) were provided with full copies of the draft Water Plan. The ECCC then convened a special meeting at which officers provided the committee with an extensive overview of the draft plan, and the issues faced in developing the draft plan.

The feedback process developed by Gippsland Water included the comment form described above, but also captured information in relation to enquiries made to our call centre, email messages and incoming written communication. In total, Gippsland Water captured feedback from 43 community members, while two members of the ECCC choose to submit a formal response to the draft Water Plan.

In developing this final Water Plan, Gippsland Water has reviewed all of the feedback provided in these responses, and has identified the themes outlined in Table 11, which mirrored the concerns raised by participants at the community consultation sessions.

**Table 11: Themes arising in community feedback**

<b>Issue Identified</b>	Tariff increases up to 100% over 5 years far to high	Severe financial hardships on pensioners / low income families	Fixed Charges / Volumetric charges – both should not go up, unfair split, no incentive	Concern re Major Industry paying its fair share	State Government funding not adequate and more should be provided
<b>No. of “Hits”</b>	15	15	13	9	6
<b>Note:</b> Multiple “hits” from single respondent allowed					

Gippsland Water comment: Severe financial hardships on pensioners / low income families

Participants in the consultation sessions sought Gippsland Water’s assistance in playing an advocacy role to highlight to policy makers the extent of the problem facing pensioners and low income families should the proposed tariff structure be approved in due course by the ESC.

Gippsland Water’s own work in relation to impacts on concession card holders has identified that to maintain current relativity, the current full concession rebate of \$158.50 would need to increase to \$319 by July 2012. At this level, concession card holders would still face an increase from \$522 to \$1051 over the regulatory period.

In a desire to better understand the concerns of organisations undertaking an advocacy role for disadvantaged groups, Gippsland Water has also made initial contact with The Victorian Council of Social Service (VCOSS), which is the peak organisation of the non-government social and community services sector. VCOSS raises awareness of the existence, causes and effects of poverty and inequality, and contributes to initiatives seeking to create a more just society. VCOSS provides a strong, secular, non-party political voice for low income and disadvantaged Victorians.

Gippsland Water understands that VCOSS has been actively engaged in researching and developing ideas in relation to water pricing policy that will better address inequality. High on the list of priorities for VCOSS is the indexing of the concessions cap to the cost of water, to retain the value, as outlined above. Gippsland Water also understands that VCOSS will seek an initial one-off rise to ensure that a typical household's water usage is fully covered by the concession.

Gippsland Water has provided VCOSS with details of its draft Water Plan for information purposes, and has indicated a willingness to assist VCOSS in understanding the issues faced by an urban water business in the development of a Water Plan, and by mutual agreement, information sharing on other issues that are difficult for VCOSS to assess without industry assistance.

It should be noted that VCOSS has in no way sanctioned or accepted Gippsland Water’s draft Water Plan in this information sharing process.

### Gippsland Water comment: major industry paying its fair share

At several consultation sessions, participants sought assurances from Gippsland Water that major industry within the Latrobe Valley was not being subsidised by residential users. Gippsland Water indicated that industry was paying its fair share, but despite requests for details of major industry contracts to be made public, Gippsland Water could not breach the confidentiality of those contracts. One common misconception was that major industry pays far less for treated water than residential customers, when in fact most major industry tariffs for the provision of treated water mirror the rates applied to residential users.

### Gippsland Water comment: State Government funding inadequate

Participants in the consultation sessions sought Gippsland Water's assistance in delivering a clear message to policy makers that the funding of small town water and sewerage schemes was the responsibility of government, and that the government contributions outlined for Loch Sport, Coongulla and Glenmaggie were totally inadequate. The impact of this was to drive up tariffs across the region, which was not fair.

Failing government intervention to provide additional funding, participants raised serious concerns about obligations imposed on Gippsland Water by government which restrict the cost of these new systems to current land owners to a one off contribution of \$800, or \$1,600 over 20 years. Participants found the proposition that their tariffs would increase to pay for the servicing of a significant number of holiday homes across the region particularly unacceptable.

## **1.6.3 REGULATOR FEEDBACK ON DRAFT WATER PLAN**

Gippsland Water provided copies of its draft Water Plan to various regulators, agencies and local government, seeking feedback to allow completion of the final Water Plan. A number of responses sought more detail on particular issues of interest to that respondent, rather than identifying any serious issues or concerns with the draft Water Plan. Gippsland Water would like to acknowledge the responses that were received, and where noted below, the major issues raised by:

- DHS;
- DSE,
  - Corrections to government funding for CTWSS,
  - Common understanding re major industry water demands;
- EPA;
- ESC;
- Latrobe City Council;
- Melbourne Water;
- Wellington Shire Council,
  - Inappropriate and excessive proposed tariff increases; and
- WGCMA.