

IPART RELEASES FINAL DETERMINATION OF WATER PRICES FOR THE HUNTER

Embargoed until 9am, Friday 17 July 2009

The Independent Pricing and Regulatory Tribunal (IPART) today released its final determination on water, sewerage and stormwater charges for Hunter Water. The determination sets prices that will apply from the date of gazettal by the New South Wales Government (17 July 2009) until 30 June, 2013.

Dr Michael Keating AC, IPART Chairman, said: "Under the determination, the bill for a typical residential household (that uses 200 kL of water per annum) in 2012/13 will increase by around \$220 a year (plus inflation) or 31 per cent."

Dr Keating said IPART has rejected Hunter Water's proposal which would have increased a typical household bill by \$412 a year (plus inflation) or 57 per cent by 2012/13.

Price increases are required to:

- ▼ Improve water and drought security for the Hunter region through the construction of Tillegra Dam.
- ▼ Undertake sewerage projects to comply with current Department of Environment and Climate Change (DECC) standards. These include upgrades to the Burwood Beach sewerage treatment plant and the Newcastle, Morpeth and Windale/Gateshead sewerage systems.
- ▼ Augment water services to cater for forecast population increases and demand. These include the upgrade of the Tomaree/Tillgerry water supply and water treatment plant.

"IPART issued a draft determination for comment in April 2009. While prices in the early years of the determination period are somewhat higher than under the draft, by the last year of the determination period - 2012/13 - prices are very similar to the draft determination", said Dr Keating.

This reflects IPART's decisions to:

- ▼ Increase Hunter Water's allowed operating expenditure by 2.3 per cent to take account of new information provided by Hunter Water.
- ▼ Reduce sales forecasts by 3.6 per cent to correct an error in Hunter Water's forecasts.
- ▼ Set the rate of return at 6.5 per cent, whereas 7 per cent was allowed for the draft.
- ▼ Allow Hunter Water to earn this return in each year of the determination period.

Under the final determination, the water usage charge will rise from \$1.27 per kilolitre in 2009 to \$1.86 per kilolitre in 2012/13. But water service charges will fall.

IPART has decided to discontinue the residential sewerage usage charge. At present, the sewerage usage charge for residential households is based on their metered water use.

"The introduction of the Building and Sustainability Index (BASIX) for new homes and the increased use of recycled water and rainwater tanks mean that customers' metered water use is becoming a less reliable indicator of their sewerage use. The existing system is becoming increasingly unfair and IPART has decided to replace the sewerage usage charge by an increased service charge" said Dr Keating.

Under the final determination, for a typical residential household with a 20 mm meter:

- ▼ the water service charge will fall by 3 per cent to \$40.30 in 2012/13 (plus inflation)
- ▼ the sewerage service charge will rise by 54 per cent to \$494.80 in 2012/13, (plus inflation), but residential customers will no longer be required to pay sewerage usage charges.

The stormwater service will increase by \$77.02 in 2012/13, (plus inflation) or by 25 per cent, for customers who receive this service from Hunter Water.

"A major task for this review has been to determine prices that will recover the efficient costs of constructing the Tillegra dam" Dr Keating said.

"IPART has accepted Hunter Water's argument that the drought security benefits of constructing Tillegra Dam equate to 40 per cent of the cost. This amount should be paid for by Hunter Water's existing customers, commencing in 2009."

Dr Keating said that the remaining 60 per cent of the dam's costs provides benefits to future customers because it caters for expected population growth in the Hunter Valley. As the population grows the value of that water will increase. Recovery of these costs should be through future prices. This approach is equitable in that it matches prices with the benefits received by existing and future customers and at the same time ensures that Hunter Water will continue to be financially viable.

"As the population grows we expect that utilisation of the dam will increase. So it's only fair that a growing customer base should contribute to the remaining costs of Tillegra," he said.

IPART's decision means that the water and sewerage bills of a typical residential customer will include \$32 per annum in 2012/13 that is associated with Tillegra Dam.

Dr Keating said that this customer's bill would have increased by an additional \$70 per annum in 2012/13 if IPART had not deferred recovery of a proportion of the Tillegra Dam costs.

"IPART has also received submissions that posed concerns that the Dam had not yet received environmental approval and could be delayed. IPART has decided to adjust the 2012/13 water service charge in the event that construction of the Dam is materially delayed resulting in an underspend of 50 per cent or more", said Dr Keating.

IPART's report can be viewed on its website www.ipart.nsw.gov.au or obtained by contacting IPART on 9290 8472.

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IPART'S DECISIONS

Determination on water, sewerage and stormwater drainage charges for residential customers (\$2008/09)

	Current (2008/09)	2009/10	2010/11	2011/12	2012/13	Overall increase
Water						
Service charge pa	41.46	38.44	38.86	38.99	40.30	-2.8%
Year on year increase		-7.3%	1.1%	0.3%	3.4%	
Usage charge per kL	1.27	1.51	1.62	1.74	1.86	46.5%
Year on year increase		18.9%	7.3%	7.4%	6.9%	
Sewerage						
Service charge pa	321.17	445.08	462.21	478.25	494.80	54.1%
Year on year increase		38.6%	3.8%	3.5%	3.5%	
Usage per kL	0.47	0	0	0	0	-100%
Year on year increase		-100%				
Stormwater drainage						
Service pa	61.52	72.59	74.04	75.51	77.02	25.2%
Year on year increase		18.0%	2.0%	2.0%	2.0%	

Note: Water Service charge is based on a 20mm meter.

Increases in residential annual bills for customers with varying water consumption under the determination (\$2008/09)

	Current (2008/09)	2009/10	2010/11	2011/12	2012/13	Change 2008/09 to 2012/13
100 kL pa	567.97	666.49	695.05	723.22	753.08	185.11
% increase		17.3%	4.3%	4.1%	4.1%	32.6%
200 kL pa	718.47	817.49	857.05	897.22	939.08	220.61
% increase		13.8%	4.8%	4.7%	4.7%	30.7%
300 kL pa	868.97	968.49	1019.05	1071.22	1125.08	256.11
% increase		11.5%	5.2%	5.1%	5.0%	29.5%
750 kL pa	1,546.22	1,647.99	1,748.05	1,854.22	1,962.08	415.86
% increase		6.6%	6.1%	6.1%	5.8%	26.9%

Note: Bills exclude stormwater drainage charges as most of Hunter Water's customers receive stormwater drainage services from local councils. Hunter Water only provides stormwater services to approximately 66,500 of its approximately 216,000 customers.

Drivers of increases in a typical residential customer's bill, 2008/09 to 2012/13 (\$2008/09)

	IPART determination
Operating expenditure	\$44
Capital investment:	
Tillegra Dam ^a	\$32
Subsidy for Kooragang Island Recycled Water Scheme ^a	\$0
Sewer projects required to meet DECC standards	\$26
Sewer transport and treatment plant upgrades	\$53
Water supply system development and upgrades	\$19
Other system augmentation, and water resource capital expenditure	\$30
	\$160
Removal of developer charges, (all costs recovered through customer prices)	\$16
Total	\$220

^a These initiatives are included in a Section 16A direction from the Government to IPART.

Note: Typical bills are based on households with water and sewerage services consuming 200kL of water per annum.

Typical residential bill comparison for from a current typical bill of \$718.47 to Hunter Water submission, IPART draft and IPART final determination (\$2008/09)

	2009/10	2010/11	2011/12	2012/13	cumulative
Hunter Water submission	931.97	1,004.56	1,075.36	1,130.75	
\$ increase	213.50	72.59	70.80	55.39	412.28
% increase	29.7%	7.8%	7.0%	5.2%	57.4%
IPART draft determination	786.54	835.22	885.27	938.14	
\$ increase	68.07	48.68	50.05	52.87	219.67
% increase	9.5%	6.2%	6.0%	6.0%	30.6%
IPART final determination	817.49	857.05	897.22	939.08	
\$ increase	99.02	39.56	40.17	41.87	220.61
% increase	13.8%	4.8%	4.7%	4.7%	30.7%

Note: Typical residential bill is based on the provision of water and sewerage services at a consumption of 200kL per annum.