

Attachment I: Residential wastewater usage charges

In this appendix we provide additional explanation about why we propose to maintain our current fixed residential wastewater price based on deemed usage, and not adopt an explicit variable wastewater usage charge.

Why we moved away from explicit residential wastewater usage charges in 2009

In 2009, IPART supported our proposal to discontinue the wastewater usage charge for residential customers. IPART's decision included the application of a fixed service charge only to residential customers. IPART's Final Report, July 2009, stated:¹

"In relation to sewer usage charges, IPART supports Hunter Water's proposal to discontinue the usage charge for residential customers from 2009/10. IPART... maintains its position that the sewer usage charge operates as a de facto water usage charge, and the water usage charge is already acting as a price signal for the purposes of demand management.

Furthermore, as Hunter Water pointed out, the introduction of BASIX and the increasing incidence of recycled water and rainwater tanks means metered water usage is a less reliable proxy for sewer usage. Therefore, the retention of the sewer usage charge has potentially distortionary implications for residential customers, as the number of BASIX compliant homes increase. IPART is also mindful of the regularity of complaints from Hunter Water customers about the existence of the sewer usage charge.

The application of a fixed sewer service charge only for residential customers recognises the predominately fixed costs associated with the pipes, pumping stations and treatment works infrastructure used to provide sewerage services."

There are multiple known issues with a variable wastewater usage charge

Prior to 2009, Hunter Water had a variable residential wastewater usage charge. We moved away from this approach due to several issues. These included:

- The charge, if based on the marginal efficient costs to transport and treat wastewater, provides only a small amount of customer discretion on the size of the total wastewater bill
- Minimal water conservation is achieved due to the low-price signal and the high non-discretionary nature of wastewater discharge (e.g. toilet flushing) for most customers. An efficient water conservation signal is better, and already, sent through the water usage price.
- Properties that discharge rainwater or recycled water to the sewer pay less for wastewater services, even when they discharge the same volumes to the sewer.
- It is impractical to set a bespoke discharge factor for each residential property, therefore customers who have a high proportion of outdoor use (e.g. pool owners and those with large gardens), may pay too much for their wastewater discharge.
- Customers frequently complained about these charges

¹ IPART Review of prices for water, sewerage, stormwater and other services for Hunter Water Corporation, July 2009, p142

There is some customer support for variable residential wastewater charges, however the level of support isn't overwhelming

Through our pricing proposal customer engagement, our customers expressed an interest in further discussing residential wastewater usage prices. We responded by including this topic as part of our price structures deep-dive customer engagement. We asked our customers the following question:

Q: Should we continue with a 100% fixed charge (based on deemed usage) or introduce an explicit variable component based on estimated discharge volume for each customer?

In answering this question, we surveyed approximately 500 of our customers, and engaged in five subsequent focus group sessions with different groups within our residential customer base.

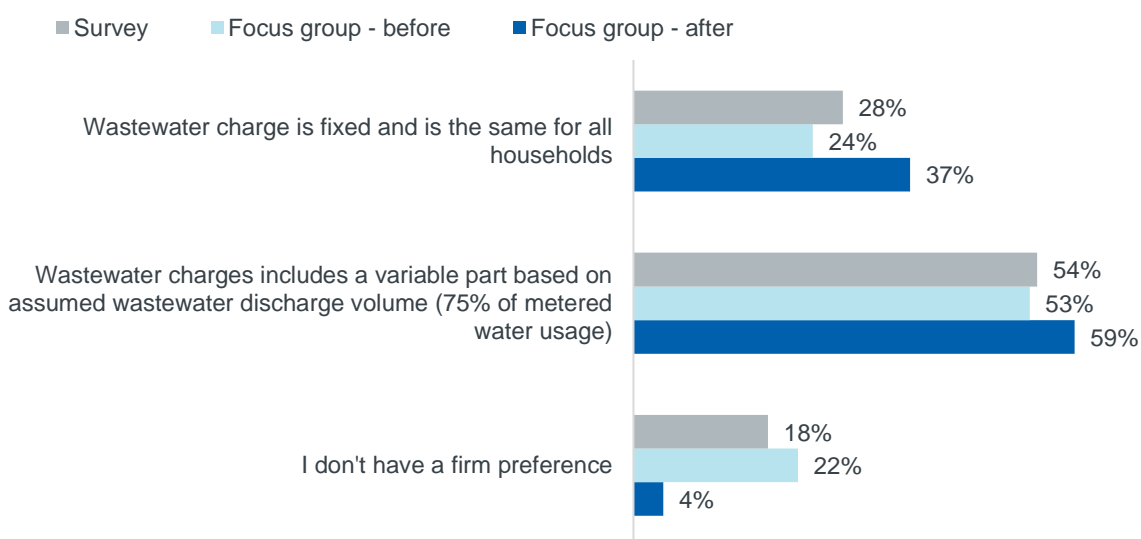
During the focus group sessions, participants were asked for their preference at the beginning of the session, and at the end after the complexity of the trade-offs and issues had been explored. For the survey and focus groups, the same three options were presented:

- 1 *Wastewater charge is fixed and is the same for all households*
- 2 *Wastewater charges include a variable part based on assumed wastewater discharge volumes (75 per cent of metered water usage)*
- 3 *I don't have a firm preference.*

Figure outlines our customers' preferences for residential fixed or variable wastewater charge options. Overall, the majority of customer – 59 per cent of focus group participants, and 54 per cent of survey participants – preferred an explicit variable wastewater usage charge.

After the complexity of trade-offs of a variable or wastewater fixed usage charge were explored during the focus group sessions, there was an increase in preference for a fixed wastewater charge (by 13 percentage points).

Figure 1: Our customers' preferences for fixed or variable residential wastewater usage changes



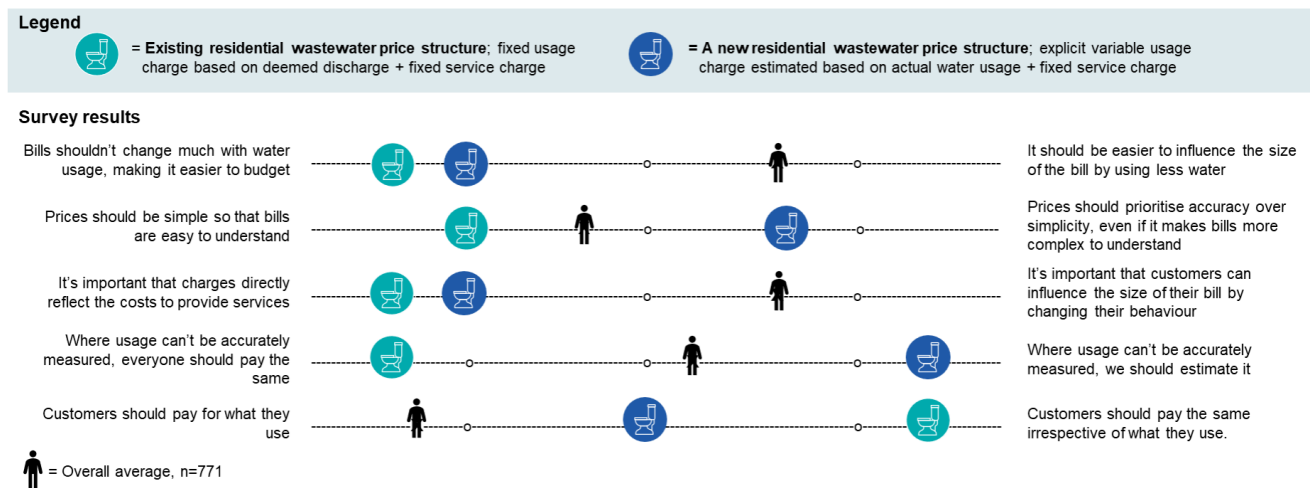
Source: Pricing structure survey, and pricing structure focus groups, May 2024

As described in Chapter 8 of our proposal, we also surveyed customers to understand the principles sitting behind their water pricing preferences.

Figure 2 shows the average response where customers were asked to indicate their preference to choose between each set of pricing principles. We've mapped where we believe our current wastewater price structure (turquoise), and an explicit variable usage charge estimated based on actual water usage (royal) sit on the spectrum between each principle.

Overall, there is a slightly better alignment of the explicit variable charge to customers' preferred principles to have more bill control, estimate usage if needed, and pay for what they use. However, the differences between the pricing approaches is relatively small, and an explicit variable charge would not meet customer's preference for simple and understandable bills.

Figure 2: Pricing options mapped against pricing principles overlayed with average of respondents' preference



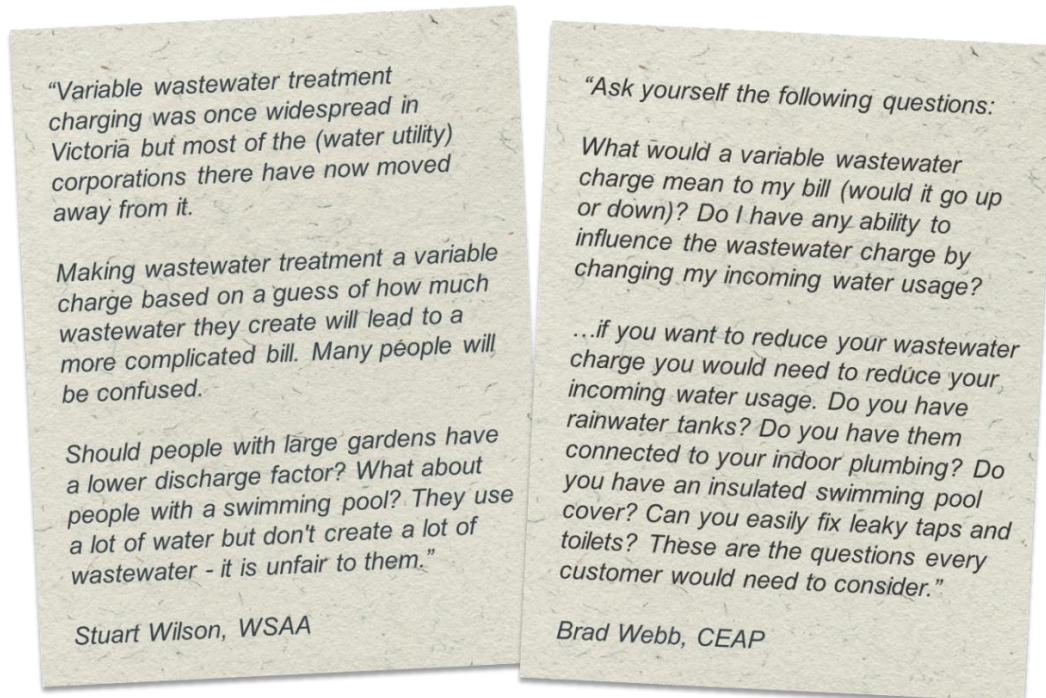
Source: Pricing structure survey, May 2024, and Hunter Water analysis

IPART prefers fixed wastewater usage charges

In addition to engaging our customers, we have referenced IPART guidance in arriving at our recommendation for residential wastewater usage charges. As outlined above, IPART's 2009 determination for Hunter Water prices was supportive of the then removal of a variable residential wastewater usage charges. The reasons outlined by IPART in the 2009 Determination remain valid today.

Engagement of industry experts and community advocates has also highlighted issues with a variable wastewater usage charge

As part of our price structures engagement, we also sought input from 'sophisticated stakeholders' including WSAA, and community stakeholders that work with community members experiencing vulnerability. These stakeholders were not supportive of explicit variable wastewater usage charges.



We propose to maintain the status quo fixed residential wastewater charge

While we acknowledge significant customer support for an explicit variable residential wastewater charge, however, we don't consider the level of support to be overwhelming enough to warrant introducing a variable a charging structure that we consider to be less equitable and efficient with foreseeable issues and challenges.

Our evaluation process is summarised in Figure 3.

Figure 3: Summary of proposal to maintain fixed residential usage charge

