

About Hunter Water's 2019 Price Submission



- ✎. Our 2019 Price Submission addresses all of IPART's information requirements – specifically, IPART's 2018 Guidelines for Water Agency Pricing Submissions and IPART's December 2018 Submission Information Package to Hunter Water.
- ✎. We provide cross-references for each item to guide the reader to the relevant location within this submission.
- ✎. This paper provides reader notes for Hunter Water's 2019 Pricing Proposal and Technical Papers 1 to 10.

Contents

1. Submission structure 3

2. Quality assurance..... 4

3. Reader notes 4

4. IPART’s information requirements 6

 4.1 Items from Guidelines for Water Agency Pricing Submissions..... 6

 4.2 IPART’s 2018 Submission Information Package 10

Attachment A – Quality Assurance Letter

1. Submission structure

For this price review, we have endeavoured to present our proposals in a format that is more accessible to our customers, community, stakeholders and IPART whilst meeting IPART's comprehensive information requirements. Our aim is to enable scrutiny of our proposals and encourage broad participation in the review process.

Our price submission consists of:



Our Pricing Proposal 2019 provides a concise and accessible summary of the services we intend to provide over the period 1 July 2020 to 30 June 2025.

It contains an overview of the conversations we've had with our customers to understand their needs and preferences, outlines proposed expenditure and revenue requirements, and the prices we propose to charge our customers for our services based on efficient and prudent costs.

The technical papers contain detailed information on specific elements of our proposal – self-contained documents that can be read individually or as a suite.

2. Quality assurance

IPART's 2018 guidelines for water agency submissions require that the submission, accompanying information returns and other materials provided by the water agency be subject to a quality assurance (QA) check. Section 7 of the guidelines sets out IPART's specific requirements for the QA check.

A formal statement confirming that the price submission and accompanying returns have been independently checked by Marsden Jacob Associates is provided at Attachment A.

3. Reader notes

- In general, past values and prices in this submission are provided in nominal terms – that is, in the dollars of the year to which they apply. Where past values are provided in real terms, such as to show aggregated figures over several years, this is indicated by the notation showing the relevant year (e.g. '\$2019-20' for values in 2019-20 terms). This practice is in line with IPART's submission guidelines. Our Pricing Proposal 2019 uses the term 'before inflation' to indicate values in 2019-20 dollar terms.
- Projected prices and values are mostly quoted in 2019-20 terms, indicated by the notation '\$2019-20'. Exceptions are noted as explained above.
- Projected customers' bills are presented in nominal dollars. Nominal dollars are dollar terms consistent with the year in which the cost occurs, including expected inflation.
 - The only exception is in the 'At a glance' section of our Pricing Proposal, which is presented in 2019-20 terms.
 - As indicated in the Submission Information Package, IPART's preference is for bill impacts for prices to apply from 1 July 2020 to be expressed in nominal terms using an inflation forecast of 2.5% (midpoint of the RBA inflation forecast). IPART considers that using nominal dollars makes it easier for customers to understand the combined impact of the new prices and inflation on the amount they may expect to pay. We contend that, in the current low inflation environment, with the latest annual All groups CPI Australia at 1.3% (Mar Qtr 2019/Mar Qtr 2018) and quarterly inflation at 0%, there is no definitive presentation that is clearly superior.¹
- Annual inflation used for indexation of dollar values is consistent with advice from IPART in the Submission Information Package provided in December 2018.
 - Annual inflation of 1.0 per cent per year is used to convert \$2014-15 to \$2015-16. This is based on the All groups CPI for Australia, June Quarter 2016 divided by June Quarter 2015, as published by the Australian Bureau of Statistics (ABS).
 - Annual inflation of 1.9 per cent per year is used to convert \$2015-16 to \$2016-17. This is based on the All groups CPI for Australia, June Quarter 2017 divided by June Quarter 2016, as published by the ABS.
 - Annual inflation of 2.1 per cent per year is used to convert \$2016-17 to \$2017-18. This is based on the All groups CPI for Australia, June Quarter 2018 divided by June Quarter 2017, as published by the ABS.
 - Annual inflation of 2.2 per cent per year is used to convert \$2017-18 to \$2018-19. This figure is based on the Bloomberg Mean Consensus inflation forecast as at 7 September 2018.

¹ 6401.0 - Consumer Price Index, Australia, Mar 2019, Latest issue released at 11:30 AM (CANBERRA TIME) 24/04/2019. Retrieved from: <https://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>

- Annual inflation of 2.5 per cent per year is used to convert \$2018-19 to \$2019-20. This figure is based on the midpoint of the Reserve Bank of Australia inflation target range.
 - Annual inflation of 2.5 per cent per year is used for indexed nominal projections beyond 2019-20. This figure is based on the midpoint of the Reserve Bank of Australia inflation target range.
- Prices for 2019-20 (the last year of the current price period) are provided for comparative purposes. The current price determination provides prices in \$2019-20 as well as the inflation adjustment methodology. The key input into the inflation adjustment is the March Quarter CPI for the All Groups index number published by the Australian Bureau of Statistics in April each year. The March Quarter CPI information needed to index determined prices for 2019-20 to 2019-20 dollar terms was released on 22 April 2019 and therefore was not available in time for the modelling, quality assurance and approvals required to lodge our price submission on its due date of 1 July. Hunter Water has therefore forecast the March 2019 CPI based on the information provided in IPART's December 2018 Submission Information Package (see previous reader note). The 2019-20 prices quoted in this submission will therefore vary slightly from those published on the Hunter Water website, which will be based on the actual March 2019 CPI. Prices published on Hunter Water's website prevail where there is a discrepancy.
- Some totals in tables may not appear to add precisely due to rounding of the component terms in the table.
- As required by IPART's submission guidelines, tables providing information about future costs, revenue requirements and prices show five years of projected data. Hunter Water proposes a five-year price determination to 30 June 2025. IPART decide the length of the determination period as part of the 2019-20 price review.
- Footnotes show abbreviated references.
- A full reference list is provided at the end of each Technical Paper.

4. IPART's information requirements

4.1 Items from Guidelines for Water Agency Pricing Submissions

This section presents IPART's submission requirements, based on its November 2018 Guidelines for Water Agency Pricing Submissions, and provides a guide to where the relevant requirement or question is addressed in the submission.²

Table 4.1 IPART Submission Guidelines Checklist

Item No.	IPART Guidance	Reference
2	Summary and performance requirements	
2.1	Executive summary	
2.1	A plain English summary for customers	Pricing Proposal "At a glance"
2.2	Your role and functions	Pricing Proposal
2.3	Your performance over the current determination period	
	Service levels Compare planned (from the previous price review) and actual service levels Summarise performance against measures set at last price review Provide reasons for not meeting planned standards of service or outputs Detail the number of complaints in relation to regulated services and charges	Technical Paper 2 provides service performance actuals against system performance standards, and total complaints. Technical Paper 4, section 4.4 provides performance against output measures. Technical Paper 2, section 2.4 provides complaint numbers.
	Historical revenue	Technical Paper 6, section 2.
	Sales volumes and customer connections	Technical Paper 7, sections 4, 5 and 6.
	Historical operating expenditure (each year of the determination period)	Technical Paper 5, section 6.
	Historical capital expenditure (each year of the current determination period)	Technical Paper 4, section 4.
	Implementation of the current determination	Technical Paper 10, section 2.
2.4	Standards of service	
	Service levels (quantity, quality and scope) for next determination period	Technical Paper 2
3	Key building block inputs	
3.1	Forecast operating and maintenance expenditure	

² The guideline is available at <https://www.ipart.nsw.gov.au/Home/Industries/Water/Public-water-utilities-we-regulate/Link-documents/Guidelines-for-Water-Agency-Pricing-Submissions-April-2018>

Item No.	IPART Guidance	Reference
	Pricing submission to list forecast operating expenditure for each of the next 5 years Identify trends in forecast operating expenditure Describe forecast efficiency programs Operating expenditure is in \$2019-20 real	Technical Paper 5, sections 6 and 7.
	Provide a forecast for the final year of the current determination period. A business case for proposed operating expenditure over and above the operating cost allowance for the final year of the current determination period	Technical Paper 5, section 6.
	Forecasting methodology, rationale and assumptions and risk	Technical Paper 5, sections 6, 7 and 8.
	Explain the cost drivers and, justification and service levels Expenditure to meet key regulatory and other obligations at least cost Any proposed mechanisms to manage cost uncertainty	Technical Paper 5, section 6 and 7 provide cost drivers. Technical Paper 2 provides information on service levels. Technical Paper 3 describes form of regulation mechanisms.
	Approach to allocation common or shared costs	Technical Paper 5, section 8
	Explain relationship between opex and capex	Technical Paper 5, section 7.
3.2	Forecast capital expenditure	
	Five years of capital expenditure by service Capital expenditure is in \$2019-20 real Describe current and forecast efficiency programs Detail major projects, including options analysis Include an appendix table of major projects	Technical Paper 4, section 5. Technical Paper 4, sections 4 and 5. Technical Paper 4, section 5.
	Forecasting methodology, rationale, assumptions and risks	Technical Paper 4, sections 5, 6 and 7.
	Drivers, justification and service levels	Technical Paper 4, sections 3, 4 and 5. Technical Paper 2.
	The relationship between capital and operating expenditure	Technical Papers 4 and 5.
	Identify how you propose to recover forecast capex	Technical Paper 6.
	Long-term investment plan is provided (at least 10 years)	Technical Paper 4, section 7
3.3	Proposed RAB, WACC, depreciation and asset lives	

Item No.	IPART Guidance	Reference
3.3.1	Opening and closing RAB	Technical Paper 6, tables 4.1 and 4.2.
3.3.2	WACC	Technical Paper 6, section 4.2.
3.3.3	Depreciation including asset lives	Technical Paper 6, section 5.
3.3.4	Cash capital contributions	Technical Paper 6, section 4.1.
3.3.5	Asset disposals	Technical Paper 6, section 4.1.
3.4	Proposed working capital and tax allowances	
3.4.1	Working capital allowance	Technical Paper 6, section 7.
3.4.2	Tax allowance and forecast tax depreciation Non-cash asset contributions	Technical Paper 6, section 6.
4	Forecast sales volumes and customer numbers	
4.1	Sales volume forecast	
	Forecast sales volumes by year Explanation of forecasting methodology, inputs, assumptions and uncertainties	Technical Paper 7
4.2	Customer number forecasts	
	Forecast customer and connection by year, service, customer type, dwelling type and meter size Explanation of forecasting methodology, inputs, assumptions and uncertainties	Technical Paper 7
5	Proposed prices and impacts	
5.1	Proposed prices	
5.1	The relationship between price and cost of service Relationship between proposed price structure and that in the current determination Analysis of willingness to pay For each type of miscellaneous fee, the number of fees or charges to levied in the upcoming period	Technical Papers 8 and 9. Technical Papers 1 and 2 describes our willingness to pay work. Technical Paper 8 describes miscellaneous charges.
5.1.1	Water usage charge	Technical Paper 8, section 2.
5.1.2	Sewerage usage charge	Technical Paper 8, section 3.
5.2	Impact of proposed prices	

Item No.	IPART Guidance	Reference
	Impact of proposed prices on the business and customers	Pricing Proposal. Technical Paper 6, section 10 discusses financeability. Technical Paper 8, section 5 provides an assessment of the impacts on customer bills.
5.2.1	Transitional arrangements to manage or mitigate proposed changes in price	Technical Paper 8 covers our approach to transitioning changes to price structures and price levels.
5.2.2	Rebates and any other measures to mitigate the impact of proposed prices on customers, particularly vulnerable customer groups	Pricing Proposal provides an overview of programs to assist customers experiencing financial hardship. Technical Paper 7, section 6 describes CSOs for exempt properties.
5.2.3	Other impacts – section 15 of the IPART Act	Technical Paper 6.
5.2.4	Affordability – analysis customer affordability resulting from proposed prices	Pricing Proposal.
5.2.5	Impacts on the regulated water utility – financial ratios, financial viability and financeability	Pricing Proposal and Technical Paper 6, section 10 provide an assessment of our submission on our financial metrics.
5.3	Customer consultation – details of customer engagement	
	How customers have been consulted and how customer views are reflected in the price submission	Technical Paper 1, section 2.
6.0	Additional considerations	
6.1	Recycled water	
	Forecast of recycled water expenditure for 5 years	Technical Paper 9 and AIR
	Evidence of ring-fencing the costs and revenues of recycled water from other parts of the business.	Technical Paper 5, section 7.4 and AIR
	Report avoided or deferred costs of recycled water schemes from the broader water and/or sewerage customer base.	AIR
6.2	Ring-fencing of cost and revenue of unregulated services	
	Identify and explain costs and revenues of supplying any unregulated services Explain allocation of any common costs	Technical Paper 5, section 8
6.3	Finance and operating leases	
6.3.1	Finance leases	Not applicable
6.3.2	Operating leases	Special Information Return
6.4	Outstanding issues from the previous price determination	

Item No.	IPART Guidance	Reference
	Appendix D from the Submission Information Package	Cross-references to each issue are contained in Table 4.2 of this Technical Paper.
6.5	Determination length	
	Propose the length of the determination period	Pricing Proposal and Technical Paper 3, section 1
6.6	Other issues	
	Include any other issues considered relevant, including supporting reasons and analysis (e.g. form of regulation issues)	Technical Paper 3.

4.2 IPART's 2018 Submission Information Package

In addition to the standard information requirements for the 2019-20 price review, IPART has asked us to address some specific issues. Outstanding issues from the 2016 price review, or areas that IPART has addressed in a subsequent review, are listed in Table 4.2. Additional key issues that IPART has requested that we address in our Price Submission are listed in Table 4.3.

Table 4.2 IPART's list of outstanding issues from the 2016 Hunter Water price review with cross-references to our submission

Issue from 2016 Price Review		Reference
Asset lives	Consider and propose more specific asset lives as opposed to an overall weighted average.	Technical Paper 6, section 5.
Demand volatility adjustment mechanism	Make a case for whether or not the mechanism has been triggered and how it should apply.	Technical Paper 3, section 2
Long run marginal cost	Propose the best estimate of the LRMC for water.	Technical Paper 8, section 1.
Cost-pass through mechanism for drought response	Consider and propose form of regulation.	Technical Paper 3, section 4
Location-based prices	Consider and propose position on location-based prices for large non-residential customers.	Technical Paper 8, section 2.
Miscellaneous and ancillary charges	Propose charges, noting that IPART proposes to undertake a review of these charges including benchmarking.	Technical paper 9, section 3
Bulk water charges	Propose price for bulk water transfers to the Central Coast, considering outcomes of the 2019 Review of Central Coast Council's prices.	Technical Paper 8, section 2.

Table 4.3 IPART's list of additional issues for this review with cross-references to our submission

Additional IPART Issues		Reference
Residential service charges	Common service charges for apartments and houses Meter-based pricing	Technical Paper 8, sections 2 and 3.
Wastewater usage charges	Deemed discharge volume for households Explicit wastewater usage charge	Technical Paper 8, section 3.
Marginal cost estimates	SRMC and LRMC for wastewater	Technical Paper 8, section 3.
Discretionary expenditure on liveability outcomes	Evidence of customer capacity and willingness to pay	Technical Paper 1, section 2. Technical Paper 2, section 5.
Efficiency Carryover Mechanism	Expansion to include capital expenditure	Technical Paper 3, section 5.
Expenditure on water conservation projects	Economic Level of Water Conservation methodology assessments	Technical Paper 2, section 4.
Operational land, surplus land and biobanking	Regulatory treatment	Technical Paper 6, sections 4 and 9.
Environmental regulatory or licensing requirements	Expenditure and outcomes	Technical Paper 2, section 5.

Attachment A - Quality Assurance Letter

MARSDEN JACOB ASSOCIATES

27 June 2019

Peter Shields

Manager Regulatory Policy

Hunter Water

By email: peter.shields@hunterwater.com.au

Dear Peter,

Quality Assurance of Hunter Water's 2019 Price Submission

Marsden Jacob Associates was engaged to undertake a quality assurance (QA) review of Hunter Water's 2019 price submission. This letter sets out our approach and the results from our QA review.

IPART requires that Hunter Water's 2019 price submission is subject to a quality assurance check prior to submission. The QA check should confirm the following:

1. Information in Hunter Water's pricing submission is consistent with the information return (Annual Information Return and Special Information Return), the agency's financial accounts, and reports against output measures, as relevant. Where there are variations in figures, these need to be explained.
2. Figures in Hunter Water's pricing submission are accurate and correctly sourced. The figures need to sum correctly. The use of nominal or real dollars should also be explained in clear and simple terms so that stakeholders can follow the logic of their use.
3. Hunter Water's pricing submission addresses all the information IPART have requested (such as in the Submission Information Package or the Issues Paper, the *Guidelines for Water Agency Pricing Submissions* (November 2018), or in correspondence).
4. Hunter Water's pricing submission includes proposed prices for all Hunter Water's regulated services.

To undertake our QA review against each of the four statements above, we separated our assessment into two review streams:

- To ensure the accuracy of figures included in each of the supporting technical documents matched the Annual Information Return and supporting documentation and are correctly sourced, and that the price submission contains all proposed prices for all regulated services – QA requirements 1,2 and 4
- To ensure all the information requirements requested by IPART through their Guidelines for Pricing Submissions and the Submission Information Package were met – QA requirement 3.

To undertake our assessment, we reviewed the following price submission documents:

- Pricing proposal summary document
- Technical paper 1 – Engaging with our customers and community
- Technical paper 2 – Service Levels
- Technical paper 3 – Form of regulation
- Technical paper 4 – Capital expenditure
- Technical paper 5 – Operating expenditure
- Technical paper 6 – Revenue requirements
- Technical paper 7 – Demand
- Technical paper 8 – Pricing of water, wastewater and stormwater services
- Technical paper 9 – Pricing of other services

MARSDEN JACOB ASSOCIATES

- Technical paper 10 – Our role, operations and operating context

To ensure accuracy of data included in the price submission documents we reviewed figures against a number of supporting spreadsheets, which included:

- AIR/SIR data template
- Pricing models for water, sewerage and stormwater
- Building block models for water, sewerage and stormwater and total revenue requirements
- Customer bill impact template
- Trade waste and miscellaneous charge templates
- Supporting spreadsheets for capital and operating expenditure forecasts.

Our QA review included an initial review of all price submission documents, from which we provided Hunter Water with a set of data accuracy issues for each technical document, and for issues identified in meeting the IPART guideline and SIP requirements. Hunter Water was then provided with the opportunity to update the price submission documents and supporting spreadsheets or provide additional commentary on how the issue had been addressed in the price submission. We then reviewed Hunter Water's responses to the issues identified and once we were satisfied that the responses met the QA requirements, each issue was checked off as complete. The detailed outcomes of our review are attached to this letter.

Based on our assessment, we consider that Hunter Water's 2019 price submission and supporting documentation meets IPART's quality assurance requirements. Should you have any further queries on the outcomes of our QA review please do not hesitate to contact myself on (03) 8808 7400.

Yours sincerely,



Rob Nolan

Principal