

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARINGS INTO METROPOLITAN WATER PRICING

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Tribunal Members

Dr Tom Parry - Chairman  
Mr James Cox

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Held in the Hunter Room, Newcastle Town Hall  
286 King Street, Newcastle, NSW, 2300

On Monday, 9 December 2002, at 10.05am

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1 DR PARRY: We might commence proceedings. For the  
2 record, it is Monday 9 December and the tribunal is  
3 holding its formal public hearing into the proposals  
4 from the Hunter Water Corporation for its next price  
5 path commencing mid-2003.  
6  
7 I have an apology from tribunal member Cristina  
8 Cifuentes, who is unable to attend today. Jim Cox  
9 and I will be conducting today's hearings. We will  
10 be hearing from David Evans, CEO, Hunter Water  
11 Corporation, the Total Environment Centre, Incitec  
12 and the Public Interest Advocacy Centre.  
13  
14 The issues for today's hearing, and certainly  
15 for the tribunal's consideration of Hunter Water  
16 Corporation's pricing proposals, have been well  
17 flagged both in the tribunal's issues paper released  
18 sometime ago as well as in Hunter Water  
19 Corporation's submission to the tribunal and other  
20 stakeholders' submissions to the tribunal. All of  
21 those submissions are available on the public record  
22 on our website. If people have had any difficulty  
23 obtaining those submissions, you can speak to a  
24 member of the secretariat or ourselves at the end of  
25 the hearings and we can certainly arrange for  
26 anything to be made available.  
27  
28 HUNTER WATER  
29  
30 DR PARRY: Without taking up any further time I would ask  
31 David Evans, and anybody else who he wishes to bring  
32 to the table from Hunter Water Corporation, to  
33 formally identify yourselves for the record. I  
34 believe we have about one hour, which we will share.  
35  
36 MR EVANS: Thank you, very much. My name is David  
37 Evans, Chief Executive Officer of Hunter Water.  
38  
39 MR AMOS: Andrew Amos, economist with the Hunter Water  
40 Corporation.  
41  
42 MR EVANS: We will do a bit of a tag team today, if that  
43 is okay. I will go through roughly the first half  
44 of proceedings, outlining if you like the  
45 philosophical context of the price proposals, and  
46 then Andrew will address the proposals themselves.  
47  
48 We are here today to deal with a two-year price  
49 path, which is a relatively short time. What we  
50 have got to say today is in the context of our  
51 submission we presented to the tribunal three years  
52 ago. When we presented our submission three years  
53 ago we were thinking in terms of maybe a four- or  
54 five-year price path. For a good set of reasons we  
55 can go into later, the determination was ultimately  
56 for three years, but essentially what we have got is  
57 broadly a situation where our proposals for the next  
58 two years are largely consistent with what was said

1 three years ago. In a sense they are the rounding  
2 out of the last two years of the five-year program  
3 we put on the record at that time.  
4  
5 Just a few factual matters: Who is Hunter  
6 Water and what do we do. We provide water, waste  
7 water and, to a much lesser extent, drainage  
8 services for the lower Hunter Valley, basically  
9 extending to the covered in dark shaded area on the  
10 overhead, from the coalfields across to Port  
11 Stephens and down to the bottom park of the lake.  
12  
13 There are a few insights you can get from that  
14 rather cluttered diagram. It explains some of the  
15 issues relevant to us. We have three sources of  
16 water, Chichester, Tomago Sands and Grahamstown  
17 Dam.  
18 That gives us advantages over other water operators  
19 who are often restricted to one source with  
20 consequent water quality and other issues.  
21 Therefore that gives us an advantage we can play  
22 off.  
23 On the other hand we have quite a small  
24 population density and we provide a lot of services  
25 owes that linear, that is, they go out to small  
26 populations at the extremity of our systems, so we  
27 have systems that run out there in the coalfields,  
28 Port Stephens and particularly the west side of the  
29 lake, which require a lot of investment and  
30 maintenance to serve relatively few customers.  
31  
32 Just to put that in some context, Sydney Water  
33 has around 1300 kilometres of water mains per  
34 100,000 customers. Hunter Water has around 2,200.  
35 Sydney Water has two waste water treatment plants  
36 per 100,000 customers. Hunter Water has 10.8. So  
37 there is a bit of an issue of dispersal there which  
38 offsets some of our natural advantages in terms of  
39 the configuration of the water supply system.  
40  
41 The sewerage system is disbursed in the way I  
42 was just describing for water. Essentially there  
43 are two different sets of sewerage treatment plants.  
44 There is a series of coastal plants which take the  
45 majority of the flow and discharge of a secondary  
46 treatment through long ocean outfalls, one at  
47 Boulder Bay, Belmont and Burwood Beach.  
48  
49 The Belmont plant in turn makes most of the  
50 effluent that is not recycled from the western side  
51 of the Lake Macquarie through a lake crossing and  
52 out to sea.  
53  
54 The non coastal system serves a much smaller  
55 number of people but there are about another 15  
56 plants as far away as Branxton servicing a range of  
57 small populations. The total asset base for water  
58 and waste water is around \$1.8 billion.

1  
2 Drainage, which is the next overhead, is a  
3 relatively small issue in the Hunter for Hunter  
4 Water. I might just take a little bit of time to  
5 explain that because it is often confused with the  
6 system in Sydney. Basically Hunter Water operates  
7 in five or six local government areas and in several  
8 of them we hold no stormwater drainage assets at  
9 all. In Cessnock, in the box up there, we hold just  
10 a couple of kilometres of channel through the  
11 central business district.  
12  
13 In Lake Macquarie, similarly there is just one  
14 small channel through Cardiff and a couple of  
15 detention basins for Lake Macquarie, and the rest of  
16 the system is in the council of Newcastle, the lines  
17 marked in the solid box. They are simply again some  
18 sort of spur drain or main drain that Hunter Water  
19 runs.  
20  
21 The asset value is not very great and the  
22 issues associated with drainage are nowhere near as  
23 complex in the Hunter as they are in Sydney.  
24 Essentially we believe we can sort out drainage  
25 issues with our adjacent councils cooperatively,  
26 mainly because we are only dealing with one council  
27 and largely we just have to sort out any joint  
28 management regime in the area of Newcastle.  
29  
30 The next overhead I guess is probably the most  
31 important one. It is the reason we are here today  
32 really. The water industry worldwide is in some  
33 senses not an industry as conventionally understood.  
34 It's really a bundle of entitlements which  
35 government vest in a water supplier on behalf of the  
36 community to provide services and governments have  
37 all sorts of techniques to specify those bundles and  
38 entitlements to ensure that the service provider  
39 does a good job. Some operate these works well,  
40 others not. The important thing for our purposes  
41 here is just to identify what is the regulatory  
42 regime under which Hunter Water operates and what  
43 part IPART and this price process today fits into  
44 that.  
45  
46 Starting on the top right-hand corner, when  
47 water falls out of the sky it's not owned by Hunter  
48 Water but by the State, and our ability to harvest  
49 it is specified by the Department of Land and Water  
50 Conservation, which on behalf of the Crown specifies  
51 water access licences for us to operate the dams I  
52 referred to earlier. Diagonally opposite, the EPA  
53 specifies through a licensing system the terms and  
54 conditions under which you can discharge waste water  
55 either through a waste water treatment plant or as a  
56 result of sewerage flooding or other events in wet  
57 weather when the sewerage might escape through the  
58 sewer pipe network. So there is an environmental

1 protection dimension in each of those diagonal  
2 corners.  
3  
4 IPART becomes critically involved in the  
5 customer section, the bottom right-hand corner.  
6 IPART specifies an operating licence which sets out  
7 a range of consumer protection instruments to do  
8 with operating licence issues, continuity of supply,  
9 pressure, sewerage, water quality and the like, and  
10 also some customer service issues.  
11  
12 On the other diagonal corner, the top left,  
13 IPART specifies pricing.  
14  
15 I was going to start off by welcoming IPART  
16 here today to say how pleased we were to see them  
17 but I didn't want to sound too gratuitous about  
18 that. Clearly IPART plays a very important role in  
19 the water utilities in New South Wales. On the one  
20 hand it sets some consumer protection parameters  
21 that we are obliged to meet and at the other level  
22 it sets charges. That dual involvement I think is  
23 very healthy because it gives an opportunity to  
24 rationalise the interrelationship between the two.  
25  
26 Our charter, given that regulatory arrangement  
27 - every organisation has a charter - we just say we  
28 are trying to do as good a job as we can to look  
29 after the assets and the environment in a  
30 responsible commercial manner. An important part of  
31 these sort of occurrences, occasions like today, is  
32 to basically try to establish in the broad that we  
33 believe we are doing a reasonable job on behalf of  
34 the community in a reasonable value for money way.  
35  
36 We won't attempt to go through a big publicity  
37 campaign here but we thought we would put on the  
38 record some of the things we are doing because in  
39 the end I think it is important that IPART  
40 establishes that the resource that are made  
41 available through the charges that are ultimately  
42 imposed on consumers is yielding something for the  
43 trouble.  
44  
45 We went through a number of these things in our  
46 submission but broadly speaking this is a bit of a  
47 scoreboard of operating licence achievements. On  
48 the next overhead and starting from 1995/96 to  
49 2001/02 it indicates a range of achievements in  
50 complying with drinking water, water supply, water  
51 pressure, waste water treatment and waste water  
52 transport. We believe that we have over the period  
53 of the 90s enhanced and improved services, not only  
54 for customers but also for the environment.  
55  
56 One of the key themes of our presentation today  
57 is that we intend to continue to do that and in  
58 order to do that we have to spend money. We are

1 basically requesting a CPI type price outcome to  
2 ensure that the things we need to do can be  
3 effectively funded.  
4  
5 Just before we go on to some of the forward  
6 looking views, what are some of the things we have  
7 done with the money that IPART has made available  
8 from previous price paths? We have just got a few  
9 overheads which illustrate some of the things which  
10 have gone on.  
11  
12 We have in the last three years spent around  
13 \$160m on a capital program which we foreshadowed to  
14 IPART at the last hearing. There have been some  
15 changes in the composition of that program but we  
16 basically spent the amount we foreshadowed and we  
17 believe in a way which yields value to the  
18 community.  
19  
20 This next overhead is just an illustration of  
21 the series of things achieved through the  
22 commissioning of a pipeline from Stockton across to  
23 the Shortland waste water treatment works providing  
24 for the decommissioning of the old ocean outfall at  
25 Stockton and also allowing for the sewerage of Fern  
26 Bay and the extra picking up of some sewerage areas  
27 on nearby Kooragang Island.  
28  
29 The next overhead is a photo taken in Swansea  
30 where surface flooding in combination with high  
31 groundwater levels and poor plumbing fittings and  
32 leaking pipes et cetera results in sewerage flooding  
33 in the event of high rainfall events - such an event  
34 we wouldn't mind receiving at the moment - but that  
35 is shown because there has been several millions of  
36 dollars spent in Swansea to address that. We are in  
37 the current price path period going to be spending a  
38 very large proportion of the capital program on  
39 addressing such problems elsewhere in the sewer  
40 system.  
41  
42 You may recall that at the last hearing here in  
43 Newcastle one of the reasons why we ended up with a  
44 three-year rather than a four- or five-year price  
45 path was that there was some inevitable ambiguity in  
46 what we would need to spend on enhancing the waste  
47 water transport system and we believe we have nailed  
48 that now with the EPA and by community consultation  
49 and there is a very substantial sum set aside for  
50 that.  
51  
52 The next overhead is in a sense a bit more  
53 obvious and easy to explain. We completed in excess  
54 of \$20m augmentation of the Morpeth waste water  
55 treatment works. Without going into all the detail,  
56 that is to cater for an increase in East Maitland  
57 and higher levels of treatment required by the EPA  
58 to deal with algae and nutrient issues in the Hunter

1 River. That was procured through a build, construct  
2 and operate contract and we have recently just taken  
3 over from the contractor the operation of the plant.  
4 That gets us pretty close to the end of a \$400m  
5 program over the last 10 or 15 years of  
6 reconstructing sewerage treatment plants in the  
7 area. We are over the next few years going to  
8 complete Kurri and Cessnock and that will actually  
9 bring to an end the reconstruction of the sewerage  
10 system with consequent improvements in beach water  
11 quality, inland river quality, et cetera. Our focus  
12 will then turn to the sewerage transport system, as  
13 I discussed earlier.  
14

15 The next overhead is of a small but very  
16 sophisticated plant that was commissioned in the  
17 last few weeks at Karuah. It is the last of the  
18 major Hunter sewerage plants and has at great  
19 expense almost a full recycling arrangement to avoid  
20 discharge into the adjacent oyster growing areas,  
21 and that is an example of the sort of outlays that  
22 are necessary to achieve the level of environment  
23 improvement the community demands.  
24

25 The next one is very hard to photograph, as it  
26 represents pipelines when they are in the ground.  
27 This is a water supply system to augment the supply  
28 to the Tomaree peninsula, which is presently sourced  
29 from a local groundwater system. Because of the  
30 local growth up there it has been necessary to  
31 connect that system at Nelson Bay to the main system  
32 from Grahamstown and there is some \$10m or \$15m that  
33 has gone into the construction of that  
34 interconnection.  
35

36 Lastly, this is the result of a range of  
37 expenditures put into guarding drinking water  
38 quality against deterioration once the water is  
39 treated. It is a very large tin roof which has been  
40 put on the top of several of our distribution  
41 reservoirs to guard against reinfection or  
42 recontamination of water after it has been treated.  
43

44 They are all things that have been completed in  
45 the last period of the present price path. Our  
46 submission has gone in more detail as to what those  
47 things have been.  
48

49 The other issue that is of interest is the  
50 question of demand management and we have completed  
51 an integrated water resource plan which is out for  
52 public comment at the moment which outlines a whole  
53 range of new recycling initiatives,  
54 structuredisation of water efficient appliances,  
55 accelerated use of leak detection techniques, et  
56 cetera, to basically ensure that there is a new  
57 generation of demand management to supplement the  
58 pricing of water, and we will talk about that today,

1 to ensure we get the right environmental outcomes.  
2  
3 The integrated plan provides for a balanced  
4 move over the next 15 years to not only pursue a  
5 range of demand management initiatives that are  
6 outlined but also to complete some environmental  
7 impact augmentations at Grahamstown Dam to allow  
8 levels of drought security to be protected.  
9  
10 Where has the pricing history come from and  
11 where do we want to go? I will pass to Andrew in a  
12 moment, but the analogy we have always used for  
13 price reform is that it is a bit like pulling in a  
14 net when you are fishing. You pull the net in and  
15 you grab the biggest and fattest fish first and you  
16 come back for the others later. That has  
17 essentially been the history of price reform in our  
18 area over the last 20 years.  
19  
20 The bigger fish we paid for using pay-for-use  
21 pricing and a two-part tariff for water and sewer in  
22 the 1980s, the removal of property-value based  
23 charges in the 1990s and replacement with usage  
24 charges; then the removal of a range of  
25 cross-subsidies and charging for unoccupied land in  
26 the late 1990s, and in the present price path the  
27 introduction of third tier location-based pricing  
28 for large non-residential water users and a range of  
29 reforms, essentially housekeeping reforms, for sewer  
30 and drainage charges.  
31  
32 Our proposal structurally at this stage is to build  
33 on that history and in particular to round out the  
34 range of changes that were foreshadowed in 2001 and  
35 which were commenced in the determination we now  
36 operate under.  
37  
38 I guess what has happened in the last decade is  
39 that those reforms have been able to be accommodated  
40 because we have had pretty aggressive cost reduction  
41 campaigns and whenever you change charging  
42 structures, there is a tendency for charges to go  
43 up, some down, unless you reduce costs. So we have  
44 in particular taken a lot of the productivity  
45 dividend of the more efficient service delivery  
46 structure, the adoption of technological changes, to  
47 in a sense lubricate those structural price reforms  
48 so that the equity burden didn't fall too heavily on  
49 any given part of the community.  
50  
51 Charges on a per customer basis across the  
52 industrial and residential sectors have fallen about  
53 30 per cent in real terms during the 1990s. This  
54 next graph shows the charge reduction for the  
55 residential sector where you will see it has gone  
56 from a starting index of about 100 down to about  
57 just above 80 over the decade.  
58

1 This is similarly next an index of charging  
2 movements for consumers, so called average consumers  
3 in the Sydney and Hunter. Again, you can see with  
4 the program of CPI minus reductions we have had,  
5 charges have fallen for that range of customers  
6 quite substantially more in the Hunter than in  
7 Sydney.  
8  
9 Since we have been fortunate enough to deal  
10 with IPART setting our charges, a schedule of what  
11 has happened in terms of price movements or charging  
12 movements in relation to CPI is next. It has  
13 essentially been a brief period of CPI adjustments  
14 and then essentially a CPI-2 type regime for seven  
15 or eight years. That has given rise to the  
16 reduction I was just referring to.  
17  
18 Our essential position, which I will expand  
19 slightly in a moment, is that we believe that given  
20 the higher level of expenditure we are undertaking  
21 and the greater levels of difficulty of achieving  
22 bigger operating cost reductions that it is  
23 appropriate in the next few years that we return to  
24 CPI type adjustments rather than CPI minuses.  
25  
26 As I said earlier, the pricing reductions that  
27 have been sustained in the last decade have been  
28 underwritten by essentially substantial reductions  
29 in operating costs per property. In this graph I am  
30 not trying to set up Hunter Water as the world's  
31 best practice in any sense but it is an indication  
32 of operating costs per property for the Hunter  
33 compared with the Australian industry average.  
34  
35 You can see that there has been around a 40 per  
36 cent real reduction in costs per property, operating  
37 costs, not capital costs, over the decade. The  
38 curve is tending to flatten out, for reasons I will  
39 go into later, but essentially we are also spending  
40 more capital, so if we are going to recover the  
41 costs of that extra capital and we are unable to  
42 sustain such rapid reduction in operating costs that  
43 is essentially our argument for moving to CPI type  
44 outcomes rather than CPI minus ones.  
45  
46 We have a program to achieve further operating  
47 cost reductions and, as indicated, they are around  
48 three quarters of a reduction per property per year  
49 over the next two years. That is not going to match  
50 the rate of reductions of 4 or 5 per cent that were  
51 achieved in the early 1990s. There are two reasons  
52 for that essentially. The first reason is that, to  
53 put it crudely, a lot of low hanging fruit was  
54 picked in the early to mid 1990s. There was  
55 productivity overhang arising from the slow uptake  
56 of technological change and a number of work  
57 practices that were not optimal.  
58

1 We have largely, we believe, dealt with that  
2 operating cost overhang and we are now going to our  
3 workforce basically arguing that it needs to improve  
4 at the trend rate of productivity improvement of the  
5 rest of the economy of 1.5 per cent minimum per  
6 year. There are, however, some offsetting extra  
7 costs that we have referred to in our submission  
8 arising from higher standards but essentially we are  
9 in there battling for those trend productivity  
10 improvements.  
11  
12 This next diagram goes through how Hunter Water  
13 spends money on behalf of the community. It is not  
14 a diagram that would please either the economic or  
15 accounting purists because we have added up capital  
16 and operating money and just said on behalf of the  
17 community we shell out about \$120m a year, where  
18 does it go, and is it done efficiently, so I have  
19 added up capital and operating.  
20  
21 The essential point of the diagram is that if  
22 you begin from the assumption that the capital and  
23 other outlays we make are adjusted by the terms of  
24 community benefit - we put a lot of work in with  
25 customers and regulators to establish that - then we  
26 purchased capital from the market place. We do it  
27 through a range of contractual instruments which we  
28 believe are efficient and tailored to the individual  
29 circumstances and that orange area there shows about  
30 78 per cent of total outlays are purchased from the  
31 marketplace in that way.  
32  
33 The remaining areas are in the blue and the  
34 pale green. The blue is made up of a series of  
35 operational activities and customer service  
36 activities - 9 and 5 per cent respectively. The  
37 operational activities have been subject to quite a  
38 large degree of outsourcing over the last decade but  
39 the remaining in-house functions are benchmarked and  
40 we believe are within reasonable range of best  
41 practice. It is difficult to ever prove that  
42 ultimately you are at best practice but we believe  
43 we are very close to it.  
44  
45 Similarly the customer service activities are  
46 currently being benchmarked and we are moving over  
47 time to benchmark our asset management activities,  
48 which are around \$2m. What that does is leave us  
49 with about 6 per cent of uncontested core  
50 activities - the cost of being up here today, the  
51 costs of running the board, et cetera. I guess our  
52 position is that we believe it is not unreasonable  
53 to ask the community to recover the costs as we have  
54 outlined them there because we don't believe there  
55 is a substantial inefficiency premium that we are  
56 paying.  
57  
58 We could not have sat here and said that a

1 decade ago, but a decade ago we had, as I say, 40  
2 per cent higher costs per property, we had a  
3 workforce of 1200 or 1300 compared to 450 now. None  
4 of that is to say we will rest on our laurels but  
5 essentially we have prepared for the tribunal the  
6 basis of why we believe those costs are reasonable.  
7  
8 I just wanted to touch next on some other costs  
9 that are emerging. Assuming you should be looking  
10 for your 1.5 per cent to 2.5 per cent trend  
11 productive improvement, you then have to allow for  
12 uncontrollable increases in costs as a result of  
13 higher standards or imposts, et cetera - again, I  
14 will not go into them all - a range of costs we are  
15 having to incur, some of which are regulatory  
16 load-based licensing fees and the like, others which  
17 are strict business costs.  
18  
19 You may recollect the sewerage treatment works  
20 I showed before for Morpeth. That is a sewerage  
21 treatment works which replaced a far simpler system  
22 that basically used gravity, natural processes and  
23 sunlight to treat effluent. The system that we have  
24 to replace it with in order to meet licence  
25 requirements uses a lot more pumping, a lot more  
26 chemicals, a lot more power, it requires even closer  
27 monitoring and it is a documentable fact that it  
28 costs more to treat sewerage that way than by the  
29 old ways, so there are some prices to be paid for  
30 improving qualities of service.  
31  
32 What is our price philosophy? We want the  
33 price to reflect a reasonable social cost of  
34 providing the services we provide. We want to make  
35 sure that we provide a level of service that is  
36 arrived at through consultation with the community  
37 and regulators and which reflects good value for the  
38 community. We would like to believe we provide the  
39 services to achieve that in an efficient way. We  
40 also - and this is a very important thing which time  
41 does not permit us to go into - but we take very  
42 seriously the stewardship of the assets, as I said  
43 before, nearly \$2 billion worth of assets that we  
44 look after on behalf of the community, and what the  
45 industry calls asset management is a really  
46 important function for us, that is, monitoring and  
47 maintaining those assets so that the community gets  
48 best whole-of-life value out of them.  
49  
50 A lot of those assets last for 100 years or  
51 more. That is a very important part of our  
52 activities. We have in recent years fed into those  
53 asset management decisions, decisions about when to  
54 replace or maintain. As best we can, not only the  
55 financial costs of doing so, but also the  
56 environmental and social costs.  
57  
58 We are looking at a scenario where we might be

1 looking to replace a main that might burst quite  
2 frequently. We feed into the calculations the costs  
3 to the community and the environment of that burst  
4 occurring, if we will be without water while it is  
5 repaired, we factor into our decision-making the  
6 costs imposed on the community for not having the  
7 water on, and that system of asset management and  
8 building in of community costs I believe is a really  
9 important sign of not only good faith but also good  
10 management which we should be demonstrating to IPART  
11 to show the operating capital activities we are  
12 funding are not only financially correct but  
13 socially correct.

14  
15 In summary, for pricing we believe that the CPI  
16 is a minimum overall price adjustment. We are  
17 spending on capital, particularly on waste water  
18 transport, around \$15m a year more in this next  
19 coming price path than in the previous three years,  
20 so we are up there around nearly the \$70m a year  
21 mark rather than down closer to \$55m. I guess the  
22 view we hold, and I think the view the tribunal has  
23 enunciated in the past, is that when investments of  
24 that type are made on behalf of the community it is  
25 important that the appropriate financial return is  
26 earned on them. It is important that the costs of  
27 providing the higher services is built into  
28 community decision-making because the alternative,  
29 of course, is to spend that money on other things.  
30 You can spend it on hospitals, police or roads or  
31 leave it in the pockets of consumers, in the long  
32 run getting that balance in the consumers' eyes  
33 right. And one way to introduce accountability to  
34 the decision-making process is to make sure if you  
35 are going to spend more capital, the cost of  
36 spending it is reflected in what people have to pay.

37  
38 We believe that, for reasons I have explained,  
39 the CPI type outcome is about right. We believe  
40 there are a range of housekeeping adjustments to the  
41 structure of charging which build on our historical  
42 performance and that those two things yield  
43 essentially the proposition we are putting forward  
44 to the tribunal. Thank you.

45  
46 MR AMOS: I will just go through our pricing proposals,  
47 just firstly to reiterate a few things that David  
48 said to paint the picture.

49  
50 Initially a CPI outcome, as we have predicated  
51 all our price proposals on, will deliver a rate of  
52 return of around 5 per cent or 4.8 per cent on our  
53 regulatory asset base. That is the regulatory asset  
54 base that the tribunal has devised. We believe that  
55 that is at the low end of the opportunity costs of  
56 capital in real terms.

57  
58 David said that our previous submission was

1 based on a four- or five-year price path and at the  
2 time we were putting it together in late 1998 and  
3 1999 there were a lot of things happening in the  
4 economy, particularly at the time a lot of activity  
5 in the national competition agenda, and we had to  
6 look at pricing proposals that would stand the test  
7 of a four- or five-year price path in that agenda,  
8 which was one of the reasons we came up with third  
9 tier pricing in particular.

10  
11 The structural reforms that we proposed in 2000  
12 we believe are still relevant and most of the  
13 proposals that we put forward today and in our  
14 submission are just finetuning or a continuation of  
15 those trends.

16  
17 Again, the whole of our submission is based on  
18 CPI and the individual components for water and  
19 sewerage and the stormwater components each have a  
20 CPI adjustment in them. What we have proposed is a  
21 small increase in water usage prices, and most  
22 people would be aware our water charging is made up  
23 of a small service charge, which is a fixed service  
24 charge, and a usage charge, which is charged on each  
25 kilolitre of water used. We propose for the usage  
26 charge a small increase, and that is offset by  
27 another small reduction in the service charge which  
28 keeps it in line with the CPI adjustment. We  
29 believe that that maintains a very strong demand  
30 management signal that our prices have embodied  
31 since the early 1990s.

32  
33 We have also put forward a continuation of  
34 third tier water prices which we introduced in the  
35 2000 submission and which came into force in 2001  
36 with some minor finetuning. Because it came into  
37 place in 2000, it has only been running for two  
38 years in practice and so we don't want to upset that  
39 in anyway and we will let that to continue to bed  
40 itself down.

41  
42 The finetuning we proposal in one of the areas  
43 is to amalgamate the Kooragang and Tomago zones,  
44 which are our major industrial zones nearest to our  
45 Grahamstown Tomago source. In essence they are both  
46 continuous zones and they are both industrial zones  
47 and the problem that we had in 1999/2000 is that we  
48 were perhaps a little zealous in applying our  
49 objective model and we just ran with model outcomes  
50 rather than looking at how the prices impacted. We  
51 think perhaps as it is structured now it probably  
52 sends a negative signal to the Tomago zone, which is  
53 perhaps not correct given the industrial make-up,  
54 and they are contiguous.

55  
56 Again, for sewer, the next overhead - an  
57 overall CPI price adjustment. In 2000 we introduced  
58 a minimum charge for home units and/or flats. One



1 of the reasons we did this is that over time and  
2 with the tribunal's concurrence we reduced the sewer  
3 usage charge which were then at a position where  
4 flats and units were not contributing a lot of  
5 revenue to the sewer system and yet in many cases  
6 they put a very similar load as a house if there  
7 were two or through occupants, so it could have been  
8 the same loading, but in some cases the pricing  
9 structure we then had meant that some flats and  
10 units were paying very, very small service charges,  
11 some as little as \$20 or \$30 a year whereas a house  
12 was paying well over \$200, so there was an inequity  
13 there we needed to correct.  
14  
15 The purpose of that was essentially to be more  
16 equitable in the household bill and the structure we  
17 came up with was a fixed service charge for  
18 residential customers and that is very similar to  
19 the charge that is in place in Sydney.  
20  
21 What we proposed in 2000 was to have a  
22 four-year price path, we proposed the fourth year of  
23 that to have a \$100 minimum on the sewer service  
24 charge, so we continue that this time round and try  
25 to continue that in 2004/05 to \$120. Our ultimate  
26 target is to get that to something like two-thirds  
27 of the service charge for a stand-alone house  
28 because we believe that is the sort of loading that  
29 a typical flat or a unit might put on it, and that  
30 will bring us to around \$147.  
31  
32 We are still not there in our price path with  
33 our minimum price coming to \$120 but we are moving  
34 to that and as we get closer to it we can reassess  
35 it in subsequent determinations.  
36  
37 The other question arising is what would we do  
38 with the additional revenue from the minimum charge.  
39 In the 2000 submission we framed the first three  
40 years of that four-year price path on a revenue  
41 neutral basis, in other words, the minimum charge  
42 would be revenue neutral over the first three years  
43 and we would have a surplus of revenue in the fourth  
44 year.  
45  
46 At that time we proposed programs using that to  
47 address an anomaly with small commercials, and only  
48 those connected to a 20mm water service. With a bit  
49 more thought, we think maybe we need to expand that  
50 to other small commercials, so our preferred  
51 approach at this time is not to use it for that  
52 purpose at this stage but rather to provide another  
53 reduction in the sewer usage charge which would  
54 benefit the small commercials and all other sewer  
55 customers.  
56  
57 In time for the next price path, we would look  
58 at a broadening of the benefit that we might be able

1 to offer to smaller commercials, not only those on  
2 20mm services but those on 30mm services, 25mm  
3 services, who might be similarly affected to those  
4 on the 20mm service.  
5  
6 For stormwater in 2000, we started a process of  
7 trying to reduce the valuation base. Stormwater is  
8 the only area where we have remained on a property  
9 value basis, but only for the non-residential  
10 sector. The residential stormwater charges are  
11 still just a fixed charge. There is no valuation  
12 component for residential.  
13  
14 What we started in 2000 was a process of  
15 gradually reducing the valuation component on the  
16 non-residential customers. There is only about 28  
17 per cent of the Hunter Water base that is liable for  
18 stormwater. David showed the map at the start where  
19 only about 4 per cent of that 28 per cent shown is  
20 liable for valuation charges, so we have had some  
21 additional increases in the stormwater costs in the  
22 last few years associated again with regulatory  
23 matters and a requirement to prepare stormwater  
24 management plans for the EPA, so there is a slight  
25 increase in our costs.  
26  
27 We have structured the stormwater charges to  
28 cover those costs and that still provides us with  
29 scope to provide a small reduction in valuation  
30 charges in the coming year and a 10 per cent charge  
31 reduction in the subsequent year.  
32  
33 For sometime now Hunter Water has had a backlog  
34 sewer program called the Hunter Sewerage Project.  
35 It started in the late 1980s and since then over  
36 20,000 properties have been connected to the sewer.  
37 The funding of the Hunter Sewer Project was based on  
38 a 50 per cent contribution from the corporation and  
39 a 50 per cent contribution from the government. The  
40 corporation's contribution came largely from the  
41 environmental improvement charge.  
42  
43 We have had a look at the costings associated  
44 with the Hunter Sewerage Project and a CPI pricing  
45 adjustment is maintained on the basis of previous  
46 determinations. Under the government's new priority  
47 sewer project there is another project coming on  
48 board which is the sewerage of Fern Bay. What we  
49 believe the environmental improvement charge has  
50 done is provide a very transparent way of passing on  
51 the cost of backlog sewerage to the Hunter  
52 community.  
53  
54 All sewer customers pay the environmental  
55 improvement charge so the environmental improvement  
56 charge actually separates out the cost to each  
57 customer of backlog service from the cost of running  
58 the ordinary sewer system. By having a separate and

1 transparent environmental improvement charge, it is  
2 easier for customers to see what the costs to run  
3 the sewer system are and what they are paying for  
4 backlog services. We would like to look at  
5 continuing the environmental improvement charge to  
6 make a new backlog sewer program for Fern Bay and we  
7 would include the cost of Fern Bay in that  
8 environmental improvement charge.

10 When we ask for a CPI adjustment to the current  
11 charge, it brings it to \$42. If we add the cost of  
12 Fern Bay, it is an additional \$4, which brings it to  
13 around \$46. That charging regime would remain in  
14 force until 2009 when the environmental improvement  
15 charge sunsets. What does it do for Fern Bay? It  
16 basically reduces the number of old septic tanks, it  
17 caters for future growth and it provides significant  
18 environmental benefits. Again, Fern Bay is close to  
19 the Hunter River and there are issues there as to  
20 oyster leases.

22 Miscellaneous charges: We have, like other  
23 water utilities, a range of miscellaneous charges  
24 for connection fees, planning, et cetera. We have  
25 adopted IPART's 20 common core miscellaneous charges  
26 and we have on top of that a range of Hunter Water  
27 specific charges. We propose this continue with the  
28 existing charge structure with some minor changes  
29 and some cost updating. Some charges are being  
30 updated to reflect new costs in electronic delivery  
31 in terms of billing and particularly the provision  
32 of plans and certificates via electronics means.

34 For trade waste, again we are continuing the  
35 same methodology in approved frameworks adopted by  
36 the tribunal in 1996 and 2000. We have some  
37 revisions to tinkered receival charges. That is  
38 where we take septic tank waste from outlying areas  
39 and tanker it to our treatment plants. The  
40 tinkering is done by private contractors, who  
41 deliver it to the treatment plant for our treatment.

43 What we have done is some analysis of what  
44 constitutes or makes up this tinkered waste coming  
45 in and found it is has not been reflected in our  
46 costs, so there is some minor increases in tinkered  
47 waste receival because it is stronger than we  
48 thought. There is some update there.

50 The other change in our trade waste is that we  
51 plan to introduce a sulphate charge. Sulphates  
52 themselves are linked to a lot of the other problems  
53 we have in the waste transport network and corrosion  
54 in the transport system, so it is very difficult for  
55 us to arrive at a good charge for that, but we have  
56 based it on the Sydney Water charge, and having a  
57 sulphate charge brings us into line with other  
58 agencies and particularly with Sydney Water.

1  
2 DR PARRY: Thank you very much. I should at the outset  
3 note and congratulate Hunter Water for what you have  
4 achieved over a number of years. It is certainly  
5 the case that you have been able to sustain  
6 efficiency improvements which have funded major  
7 pricing performance. Hunter Water should be  
8 congratulated because you have led the rest in many  
9 ways with water and pricing reforms.

11 I suppose it begs the question, have we  
12 squeezed all we can out of the productivity golden  
13 goose, particularly in terms of the capital side of  
14 the business in relation to new technology, new ways  
15 of doing things? What do you see as the future for,  
16 I will call it the golden goose, but it has funded a  
17 very lot of good things.

19 MR EVANS: That is a question that focuses our minds a  
20 lot as well. I guess our answer to that is that it  
21 is very difficult to establish a model or a  
22 scoreboard that says you are within 4 per cent of  
23 something called "the best". When you are 40 per  
24 cent away from it you are pretty clear you are 40  
25 per cent away and you just try to improve it as much  
26 as you can. I guess our answer to your question  
27 really is to make sure our processes are as right as  
28 possible, so that is why we make sure we don't build  
29 something unless the community wants it or a  
30 regulator says we should do so; and then we make  
31 sure we procure it in a way that we believe yields  
32 the best value for money not only in the initial  
33 procurement but in the whole-of-life management of  
34 it.

36 So it is the operation of it as well because  
37 very often people underestimate the fact that when  
38 you buy a new asset, it is like buying a new car,  
39 you have to put petrol in it and change the tyres.

41 So we are trying to establish that our  
42 processes are correct on the capital side by (a)  
43 documenting what we do more fully and then (b)  
44 getting that systematically benchmarked by a variety  
45 of means. The problem with a process solution of  
46 that type is that I think it hopefully yields your  
47 best practice but it doesn't yield of itself proof  
48 that you are not 3 or 4 or 5 per cent under or over.

50 As I sit here I cannot prove that our capital  
51 procurement and all that goes with it could not be  
52 improved by 3 or 4 per cent. Any area of activity  
53 you care to make, if you have the very best people  
54 focusing all their energy on it you probably would  
55 do better, but it costs to do that, say by taking  
56 people away from other areas.

58 So that is a bit of a long-winded way of saying

1 that we are very surprised we are not within 3 or 4  
2 per cent on particularly all the capital stuff, and  
3 I guess the judgment about that in the medium term  
4 has to revolve around us demonstrating that our  
5 processes of procurement and asset management is  
6 right and that is something we are very much working  
7 on with respect to the next price path.

8  
9 We have tried to do as much of it as we can  
10 now, but we are of the view that that is like the  
11 analogy of pulling in the net, that is something we  
12 should be doing a lot more of over the next couple  
13 of years. When you put yourself in the shoes of the  
14 regulators, the community and people like the EPA  
15 they are saying maybe we could twist - they like to  
16 twist the golden goose a bit as well, and everybody  
17 sort of feels maybe we could get a bit more out of  
18 it, so we are looking to come up with a  
19 benchmarkable set of descriptions of the  
20 decision-making and procurement process and then  
21 basically what I would like to see happen is for  
22 some form of well resourced evaluation of those  
23 processes which would be available for use by all  
24 the regulators, not just the price regulators but by  
25 the environmental regulators as well, because in the  
26 end it is the same goose that everybody is trying to  
27 pluck.

28  
29 We believe we are pretty close but we would  
30 like to put more energy into proving that.

31  
32 DR PARRY: Related to that issue, this is one that the  
33 tribunal is currently struggling with and you might  
34 be able to help us at least with some initial  
35 thoughts - it goes to the capital side and it goes  
36 to on at least two occasions today you have  
37 admirably and appropriately said that Hunter Water  
38 Corporation wishes to put in place socially correct  
39 capital expenditure, undertake works that the  
40 community wants or the environmental regulator or  
41 somebody tells you to do, for dam safety or waste  
42 water treatment, and, as the regulator, the duality  
43 of licence compliance is an issue that we struggle  
44 with and are struggling with at the moment in terms  
45 of we see what you put to us and to the community in  
46 terms of the activities you wish to undertake and  
47 seek funding for to achieve certain outcomes guided  
48 by regulators or by your customer base and we then  
49 look a few years later, as we are doing now, at what  
50 has happened over the last four years and we see  
51 there are some differences.

52  
53 An immediate reaction would be, we don't want  
54 to micro manage Hunter Water Corporation, it is not  
55 our job, that is your job, but we have this set of  
56 issues that I have tried to articulate, which is we  
57 need to make sure that you are in fact doing what  
58 you say you are doing and that what you say you are

1 doing is what the community wants you to do or that  
2 you are supposed to document how you do that.

3  
4 I raise it as a problem that we all have and I  
5 thought I would just grab you today to see if you  
6 had some thoughts to help us forward.

7  
8 MR EVANS: The transparency argument - we make our best  
9 estimate to predict what we will spend money on for  
10 the coming price path and document that. Those  
11 things are always based on imperfect information.  
12 You will then get an actual outcome, which in our  
13 case is the actual dollars spent doing what we said  
14 we would do, but there are compositional changes. I  
15 guess it comes down to a question of whether the  
16 compositional change is justified.

17  
18 To put it crudely, when you do a three- or  
19 four-year capital program you are making assumptions  
20 about how the world will be in years two or three,  
21 how much contractors will charge you, what the  
22 community will really want, and also you are making  
23 estimates of what the technical results of your  
24 studies will be. There are always margins of error  
25 in what is put forward. The longer the price path,  
26 the bigger the margin for error. The answer I think  
27 is that we have to specify the assumptions and then  
28 reconcile the differences.

29  
30 An obvious issue say in the second half of the  
31 1990s in Australia was an elevated level of concern  
32 during price paths with drinking water quality  
33 following the Sydney Water incident and some of the  
34 routing of reservoirs and the like that I had up  
35 there on the overheads was in part a response to an  
36 emerging community concern about that issue.  
37 Similarly there is a merging community concern about  
38 all sorts of security matters, so there can be  
39 legitimate reasons why you might change your  
40 composition.

41  
42 Similarly on waste water transport, what you do  
43 with the waste water transport system hasn't  
44 historically been supported by a body of really good  
45 asset management knowledge. The sewer transport  
46 system, the pipes and pumps under the ground, were  
47 until recent technological change invisible. You  
48 are then trying to project how you might enhance  
49 their present performance in wet weather. You did  
50 that in 1995 from a certain level of knowledge of  
51 close circuit TV inspection, hydrological modelling  
52 based on rainfall and flow gauges to predict an  
53 estimate of works you would have to do to improve  
54 the effectiveness of that have system in a 1 in 20  
55 year rainfall event.

56  
57 That type of work worldwide is being pioneered  
58 and developed and over a two or three year period

1 you would be very surprised if the estimate you  
2 provided of your optimal outlays was going to be  
3 right when you finished all the studies, so there is  
4 all manner of variation that will occur over time.  
5 The job, the task, we have to face is to keep that  
6 variation to a minimum, but where change is  
7 justified enunciate the reasons for it because it  
8 can be socially wasteful to get to a mode where we  
9 say, "we made an informed guess in 1995 we would do  
10 something, we now have better knowledge but we had  
11 better do what we said we would do originally  
12 because we said we would". I guess it comes down to  
13 how we are able to reconcile the differences and  
14 justify them and make that transparent.

15  
16 We are happy to do that in supplementary  
17 submissions or in submissions or under questioning  
18 here today. There has to be flexibility preserved  
19 because otherwise what will happen is that the  
20 supply agencies, if they feel they will get  
21 penalised for not having spent exactly what they  
22 said they would, they will become conservative and  
23 rush off and spend it anyway.

24  
25 You don't want, as you say, to be in the micro  
26 management at that level.

27  
28 DR PARRY: We will explore that further with you and  
29 Sydney Water and others. You are right, we don't  
30 want to force you to do things that over time don't  
31 make sense or are not the right priority. It is a  
32 practice that will change.

33  
34 I just want to talk about the Hunter sewerage  
35 project. Demand management - I am sure I saw a  
36 figure somewhere that your dry weather reuse was  
37 about 11 per cent.

38  
39 MR EVANS: That is right.

40  
41 DR PARRY: You will have to remind me whether that has  
42 changed very much since we were last here and  
43 generally what the projections are for reuse and for  
44 demand management more broadly? I suppose Hunter  
45 was, if not the first one, one of the first to  
46 really use price instruments to achieve demand  
47 management targets. Your per capita per property  
48 consumption figures compared to others still are  
49 very, very good. What do you see as the future for  
50 further, better demand management, including the use  
51 of price, and the reuse questions?

52  
53 MR EVANS: First of all, you have to be opportunistic  
54 with demand management, particularly recycling.  
55 Obviously your first requirement is the costs the  
56 community faces to use water reflects both the  
57 financial costs and the environmental costs of  
58 harvesting it so they have a built-in pricing

1 incentive to reuse if they can. Then what happens  
2 is reuse becomes quite substantially a function in  
3 the first instance of the industrial structure you  
4 have. We I believe would have achieved an even  
5 greater level of reuse if the industrial structure  
6 of Newcastle had maintained the 1950s, 1960s  
7 structure, but in the last three or four years there  
8 has been the closure of BHP and National Textiles,  
9 so you can lead a horse to water but you can't make  
10 it drink, as it were, and we therefore have to be  
11 opportunistic about having the water treated to a  
12 level which allows recycling but then industrial  
13 changes are your next opportunity to drive that  
14 reuse higher.

15  
16 There are potential issues with respect to  
17 industrial change here in the next four or five  
18 years that might create some big opportunities.  
19 Beyond that you have to work away with the structure  
20 you have got and there are a couple where they are  
21 actually on stream now. One is actually a formal  
22 opening of the Karuah waste water treatment works  
23 today week that recycles everything on a very  
24 large-scale circular irrigation system watering  
25 millet and trees. That is a spectacular system and  
26 will increase recycling. If you get a chance to  
27 visit, or see the TV coverage, it is a huge system  
28 for 2,500 people, because the area you need to reuse  
29 in both wet and dry water is very substantial.

30  
31 That traditional use is limited a bit by  
32 industrial structures. You then say, what else  
33 could you do for reuse. The quantum changes are  
34 recharging aquifers, and there are really two  
35 potential ways you can lift your plateau from your  
36 15 per cent, which is what we are aiming at over the  
37 next four or five years. You can either go to some  
38 new plateau by reinjecting effluent into aquifers  
39 and reusing it back through the system - and we have  
40 done the costs of that at great length and that is,  
41 putting aside social and health perception issues  
42 there, that based on both our economic analysis and  
43 also our greenhouse gas consumption type analysis  
44 does not stack up. You have to pump it uphill and  
45 treat it for reinjection.

46  
47 The other way to climb the plateau is to  
48 basically go with dual reticulation systems for  
49 households, and that means basically treating to a  
50 higher standard and then distributing the waste  
51 water in a grey water system which requires dual  
52 plumbing for our system and for the household.  
53 Again, there are case studies of that around  
54 Australia and that is in both economic and  
55 environmental costs quite substantial, particularly  
56 if you retrofit.

57  
58 However, when you have new subdivisions and you

1 can do more of the stuff in the new subdivisions, it  
 2 is more doable there. Intelligent use of  
 3 stormwater: The best way to climb up to that other  
 4 plateau is intelligent urban design of new systems  
 5 rather than retrofitting dual waste water systems.  
 6  
 7 To cut a long story short, we think we can get  
 8 up another 2 or 3 per cent in the next two or three  
 9 years and after that it comes down to what sort of  
 10 industrial structure we end up with.  
 11  
 12 DR PARRY: And price and further demand management  
 13 gains?  
 14  
 15 MR EVANS: In the aggregate, that is an interesting  
 16 question. This has been something that people are  
 17 pondering worldwide. We in Australia have had the  
 18 opportunity once to increase water price from nought  
 19 to \$1. That was in 1982 here and it was in later  
 20 years in other cities. And many other cities  
 21 haven't gone that far. That, of course, has a big  
 22 impact on demand because it is a big percentage  
 23 change. It has an enormous awareness effect. It is  
 24 quite a striking thing. The whole structure of the  
 25 bill changes. Then in the system, if you want to  
 26 use price, you have to talk about very big increases  
 27 to get a comparable percentage change. The  
 28 percentage change between 0 and 1 is infinity. You  
 29 will never get that again.  
 30  
 31 It then comes down to, what do we know about  
 32 price elasticity of water. We think it is about  
 33 point 2, so in order to reduce demand by price alone  
 34 you have to look at very big pricing increases. You  
 35 then are led into some quite profound equity issues  
 36 and some issues with respect to industrial structure  
 37 and international competitiveness. One of the  
 38 fundamental issues is that the big distribution  
 39 infrastructure that distributes the water is  
 40 potentially underutilised if you price the water too  
 41 high. You want to price the water high for demand  
 42 management, environmental protection, and therefore  
 43 you need to build in a big conservation component  
 44 into the water price, that we believe we have done,  
 45 but if you said, for example, we want to double or  
 46 triple the price of water, which you could do, you  
 47 have got to ask, what will that do from a social  
 48 point of view for the utilisation of the big  
 49 investment people have already got.  
 50  
 51 Our view is that you need to be steadily  
 52 reinforcing the demand management signal through  
 53 pricing, which our composition provides for, but you  
 54 also need to be going hard on the recycling  
 55 opportunities and a range of community education, a  
 56 new generation of water efficiency in the community  
 57 through a range of promotional activities which we  
 58 have covered in the integrated water resource plan.  
 59  
 60 It is a bit of everything in there. I don't believe

1 you will readily get a solution by operating on  
 2 price alone.  
 3  
 4 DR PARRY: Thank you. Lastly from me, the Hunter  
 5 sewerage program and the EIC - two parts to the  
 6 question. Is the government still partly funding  
 7 that sewerage program and how is the asset being  
 8 treated, whether funded by way of government levy or  
 9 government contributions, in terms of roll-ins to  
 10 the asset base?  
 11  
 12 MR EVANS: I might have to ask you to clarify the second  
 13 question, but in relation to the first the  
 14 Government funding of these backlog sewer programs  
 15 is provided through a different mechanism from the  
 16 old HSP. It is now provided through a commitment  
 17 government has made in the case of Fern Bay to pay  
 18 direct to us the contribution it would otherwise  
 19 have received through us from the benefiting  
 20 residences, so there is an amount there which is  
 21 paid to Hunter Water Corporation through what is  
 22 called a community service payment. There is some  
 23 direct government funding conceptually similar to  
 24 the old HSP.  
 25  
 26 DR PARRY: But the old HSP has finished?  
 27  
 28 MR EVANS: Yes. Instead of that, there is a payment of  
 29 the amount the customer would have to pay, the  
 30 direct beneficiary would have to pay.  
 31  
 32 DR PARRY: The balance you are proposing is across the  
 33 entire customer base?  
 34  
 35 MR EVANS: Yes, which is the top-up for the 20,000  
 36 properties. That has already been done. It has  
 37 been done the same way. What it comes down to is a  
 38 judgment about what is the best way to give  
 39 transparency to that cost recovery, particularly in  
 40 an environment where the community here for over a  
 41 decade has been funding backlog sewerage that way.  
 42 It would be a different matter if you were proposing  
 43 to introduce a new levy with all its administrative  
 44 and explanation and other costs, but when you are  
 45 seven eighths of the way through something and you  
 46 can just add something on the end, which is  
 47 essentially the same as the model that the community  
 48 appears to accept, that seems to make reasonable  
 49 sense.  
 50  
 51 DR PARRY: The asset base, the roll-ins to the asset  
 52 base, what happens with these works if they are now  
 53 fully funded through a levy? It is a customer  
 54 contribution plus government contribution?  
 55  
 56 MR AMOS: It is not against the asset base, so it is a  
 57 government contribution.  
 58

1 MR COX: Thank you for your submission and presentation.  
2 You were very unkind to remind us this is the sixth  
3 time we have been together in this room talking  
4 about these issues. You also pointed out that  
5 during that period you have seen significant  
6 reductions in costs for Hunter Water Corporation and  
7 these have been passed to the community in terms of  
8 lower prices, which to my way of thinking is an  
9 excellent thing.

10  
11 Looking forward, you point out you have a much  
12 higher level of spending than in the past and the  
13 scope for further productivity changes will be less  
14 in the future than it has been in the past.

15  
16 In that context, where do you see the system  
17 going? Where is the next hurdle to climb? What  
18 should we be jointly trying to move towards in terms  
19 of a regulatory system that gives customers what  
20 they want at a price they can afford?

21  
22 MR EVANS: That is a very big question. That is a  
23 question that is asked all around the world because  
24 everywhere you go the same set of concepts have to  
25 be addressed. No one anywhere in the world has  
26 invented a system where somehow you can just leave  
27 it to the marketplace and it will all be okay on the  
28 night.

29  
30 I think the way to proceed is to build on the  
31 structural reforms that emerged out of the 1990s.  
32 When you get in a helicopter and look back over the  
33 1990s, what emerged was a far more explicit role for  
34 Land and Water Conservation to allocate raw water  
35 and to charge accordingly and a far more explicit  
36 role for EPA to regulate waste water treatment and  
37 waste water transport and to specify that in  
38 licences and pollution reduction programs, and then  
39 the emergence of IPART, as I described before, for  
40 pricing and customer service, at the end.

41  
42 The model I would like to see further developed  
43 is essentially to bring all that together slightly  
44 more explicitly in terms of the cost trade-offs and  
45 the like in what I believe could be say four-year  
46 price paths which simultaneously considered the  
47 standard questions and which were backed up by some  
48 form of external scrutiny of the water utility's  
49 efficiency in response to those requirements which  
50 would be independently established and made  
51 available to all the regulating parties.

52  
53 In the water industry it is in our interests to  
54 develop such an accountability device and, dare I  
55 say it, help fund it, because it is vital for  
56 preserving community faith and for informed  
57 decision-making by the different regulators.

1 Within that there are inevitably some grey  
2 areas. There are many things which are sort of  
3 self-evident truths. People want drinking water  
4 that will not make them sick and that taste okay.  
5 That is a clear statement. But how many degrees of  
6 barriers of protection do you want to put in that?  
7 There are costs in doing that. Is it better, from a  
8 community health point of view, for that sort of  
9 money to be put into the public hospital system or  
10 breast cancer screening or whatever? Even if we get  
11 that more integrated clearing house for this package  
12 of entitlements that the industry exercises, there  
13 are still grey areas with respect to the individual  
14 standards within. I think we will always have that.

15  
16 I think we have to be careful not to seek to  
17 solve that at a level of sophistication that the  
18 science does not actually allow us to do. There  
19 needs to be a level of reasonableness about this  
20 clearing house I was talking about. It is a bit  
21 vague an answer, but we need to put some energy into  
22 devising the simultaneous solving of those equations  
23 so that future price paths are doing the pricing  
24 side and the service side in a coordinated way.

25  
26 MR COX: The price review for 2005, it seems we have a  
27 good opportunity to price the two sides into a  
28 closer relationship.

29  
30 MR EVANS: From our point of view if that were to be  
31 done, price provides an opportunity for us to bring  
32 our customer service and asset management systems to  
33 a point where they could be fed into such a process,  
34 price and regulation, because otherwise we will  
35 struggle to go to the next level, as I think you are  
36 suggesting, because we can't feast of the big  
37 productivity improvements forever.

38  
39 That is a bit of an interdenominational thing.  
40 We are otherwise going to be, if you like,  
41 scrambling around as to whether it is 1, 1.25 or 1.5  
42 per cent productivity. That is hard to know, but  
43 you will not have a quantum change otherwise.

44  
45 MR COX: In thinking about the capital works program, as  
46 you describe it as a large capital works program,  
47 can we be confident that what you are proposing can  
48 in fact be delivered in the time available or is  
49 this something in reality that might have to be done  
50 over a longer period?

51  
52 MR EVANS: That is a good question. You probably nearly  
53 become eligible for a seat on our board by asking  
54 that. That is the question the board has asked a  
55 lot in the last few years because we are spending a  
56 lot more than we used to. We have put a lot of  
57 effort into the management of that. We do see a  
58 peak in our capital program, particularly on this

1 spending on waste water transport, and that has  
2 exercised our mind a fair bit.  
3  
4 I think the uncertainty about it was one reason  
5 why this present price path was three years and not  
6 four, because that was one of the questions that  
7 exercised everybody's mind at the time.  
8  
9 How do you spend a big hump when you don't  
10 spend very much? The answer is you either have to  
11 resource for it on a once-off basis or outsource  
12 your design, project management and construction  
13 management intelligently. What we have built up in  
14 recent years is a little bit of increasing of our  
15 in-house skill base for project management and the  
16 like but basically a far more sophisticated  
17 outsourcing for construction management and design,  
18 all those dimensions, and we believe that we can  
19 sensibly spend the money in the time frame.  
20  
21 The criteria has got to be not to spend the  
22 money, because anyone can always spend money. That  
23 is the old public service culture, get all the money  
24 out of the door before the end of the financial year  
25 so you don't have a carryover. That isn't a sign of  
26 success of itself. The important thing is whether  
27 you can spend the money efficiently in the time  
28 frame you have got. We believe we can as a result  
29 of working up our in-house resources a bit better  
30 and also having a more structured way of  
31 outsourcing.  
32  
33 The other dimension of it, particularly over a  
34 two-year price path where there is less uncertainty,  
35 we are pretty clear, already well advanced into the  
36 design stage of some of these major components,  
37 particularly the waste water transport work in  
38 central Newcastle and down around Lake Macquarie.  
39 In that situation the uncertainty of spending the  
40 money is a lot less than when you are back more in  
41 the concept stage and you are just imagining how you  
42 might solve the problem rather than at the stage  
43 where you have identified the problem and  
44 commissioned a design to solve it.  
45  
46 A lot of it depends on where you are at in the  
47 capital spending cycle. All those things taken into  
48 consideration, we believe we can. It may be  
49 something that will be appropriate for us to put in  
50 a supplementary submission, because I can understand  
51 why it would be of interest to you, some sort of  
52 risk analysis of that such that we could show, given  
53 a set of proposed capital outlays, what the program  
54 was for the expenditure, how we planned to manage  
55 it.  
56  
57 We do provide quarterly reports to IPART on our  
58 performance. Without driving you people into micro

1 management, it would be possible for us to provide  
2 some scoreboard of that description, to provide you  
3 with ongoing reports on how that was going, and that  
4 way we would mutually build up an understanding of  
5 these sort of things so that for the next price path  
6 there was an established scoreboard.  
7  
8 I appreciate for you, if you only look in on it  
9 every two years it is hard to work out what is going  
10 on. Something that created an ongoing dialogue as  
11 to what was to be spent and how it was planned to  
12 spend it, and then what was actually spent and why,  
13 I think you that puts you in a lot better position  
14 in two years time rather than looking back and  
15 telling you what happened.  
16  
17 MR COX: We talked a little bit about demand management.  
18 Part of your demand management box is the issue of  
19 leakage. How do you think about leakage? What do  
20 you think is the right amount of money to be  
21 spending on reducing leakage and how do you do that?  
22  
23 MR EVANS: Leakage control in a way is just another  
24 operational asset management/operational thing to  
25 optimise. To put it crudely, you want to spend as  
26 much on reducing leaks as the value of the water is  
27 that is leaking. That value has to include the  
28 environmental scarcity value which is built into the  
29 price, and so conceptually it comes down to saying,  
30 well, once you build up knowledge of your 2,000 or  
31 3,000km of water mains below the ground, making sure  
32 you keep spending on leakage control up until the  
33 last value of dollars equals the water you lose.  
34  
35 That is okay if you say it quick enough, but  
36 what you have to bring to bear is actual knowledge  
37 of the hidden asset base and what is the actual  
38 level of performance, and there are all sorts of  
39 technical things which are now possible to get  
40 better at which we are doing, including utilising an  
41 industry standard model of leak detection and  
42 analysis to try to get us to the right level.  
43  
44 Our view is probably two years ago we had more  
45 water leaking than we should have. I think we are  
46 getting much closer to the right answer now but to  
47 prove it is the right answer does need a lot more  
48 work on these models and knowledge of however the  
49 system actually functions.  
50  
51 MR COX: Just a couple of specific questions. The first  
52 one is on the minimum sewer service charge for flats  
53 and so on. Has that been well accepted? Any  
54 problems in people accepting that; people pay it or  
55 object; what sort of reception has been received?  
56  
57 MR AMOS: When we introduced it in 2001 we had a fairly  
58 comprehensive program of public consultation. We

1 wrote to all flats and unit owners advising them,  
2 and basically it didn't raise a lot of issues at all  
3 from those people. We went to a lot of trouble that  
4 we identified all the flats in particular, including  
5 getting some information from Energy Australia,  
6 because they already meter flats independently, so  
7 we cross-checked all our flat database with them to  
8 make sure we didn't end up with people on that  
9 mistakenly. Basically there has not been a lot of  
10 problem with it at all.  
11  
12 MR COX: The second issue is the Tomago/Kooragang issue.  
13 Incitec, who are in the Kooragang group, are  
14 objecting to the increase in price for that group.  
15 They suggest if there was a need to resolve the  
16 anomaly that it should have been done by reducing  
17 the price instead of increasing it. Why haven't you  
18 proposed this?  
19  
20 MR AMOS: You are saying?  
21  
22 MR COX: The third tier of the water usage price, a  
23 particular issue on your slide was about the Tomago  
24 and Kooragang group which has got two separate  
25 prices. You are proposing to bring them together by  
26 increasing one of those prices, not reducing the  
27 other. One customer is just in the group where the  
28 price is going up, they are here this afternoon, and  
29 they want to argue that the price should not have  
30 gone up. I would be interested in your comments  
31 before we hear from them.  
32  
33 MR AMOS: It is unfortunate the customers in the other  
34 zone aren't here to comment from the other side.  
35 Just to take you back to 1999, what we did, as I  
36 mentioned in our presentation, we developed a model  
37 which is based on asset structure, on the assets  
38 that are in each of our zones that we identified,  
39 and we picked in 1999 actual operational zones  
40 because we were really doing something that was  
41 quite new and we didn't know how to do it, so we  
42 identified the assets in actual zones and linked the  
43 price reduction to the proportion of assets in each  
44 zone.  
45  
46 What we found is that really, as I said in the  
47 presentation, we are probably sending a perverse  
48 signal to the Tomago people or particularly to new  
49 entrants that might want to come along and develop  
50 an industrial complex in the Tomago zone. All we  
51 have done is actually amalgamate the two zones. We  
52 have kept the asset base exactly the same in the two  
53 zones, just treated them as one asset base. We have  
54 done exactly the same calculation. We have not  
55 looked to reduce one and increase the other, we have  
56 just made one a bigger zone and used the same  
57 assets, the combined assets, to work out  
58 mathematically the price that should prevail.

1  
2 MR EVANS: Does that in simple terms mean we have  
3 averaged it for what is a bigger area or --  
4  
5 MR AMOS: Weight averaged it.  
6  
7 MR EVANS: We have not sought to penalise one or reward  
8 the other, we have just tried to average it out over  
9 what we think is a more reasonable cost base rather  
10 than create artificial barriers. I should just  
11 emphasise that the idea of this tiered charging  
12 structure is not to provide a price reduction for  
13 people who use a lot of water, it is to allow  
14 industries that have to compete internationally to  
15 get some recognition of the fact that they might, or  
16 they do, have certain cost advantages for us to  
17 service them.  
18  
19 The reality is that there is more  
20 infrastructure provided to get water to the extremes  
21 of one of our systems than there is to deliver it to  
22 an area adjacent to the water treatment plants of  
23 the sort we were just talking about, so what we are  
24 trying to do is not provide a quantity discount as  
25 such but ensure that people who have to compete  
26 internationally are not penalised when they are  
27 operating in an area where the infrastructure  
28 required to serve them, the pipes and the pumps, is  
29 a lot less than for others. It is not a quantity  
30 discount of itself.  
31

32 DR PARRY: Thank you very much for your time.

33  
34 (Short adjournment)  
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2

3 DR PARRY: We will resume. We now have the Total  
4 Environment Centre and I ask Leigh to formally  
5 introduce himself for the record and to proceed.

6

7 MR MARTIN: Leigh Martin from the Total Environment  
8 Centre. I can probably complete my presentation in  
9 less than the 15 minutes allowed because I covered a  
10 lot of ground at the Sydney hearing and I don't  
11 intend to repeat myself. I will confine my remarks  
12 to today's issues that are specific to Hunter Water.

13

14 I will start with demand management, which is  
15 always probably the key issue for environment groups  
16 like TEC when dealing with regulation and pricing  
17 issues for water. One of the things that the  
18 tribunal is obviously considering very closely for  
19 Sydney Water is the issue of there being a conflict  
20 of interest I guess between the obligations of the  
21 corporation to conserve water and to manage demand  
22 for water and disincentives that presents in an  
23 environment whereby they are selling water in excess  
24 of targets that can maximise their profits.

25

26 I know the tribunal is considering very  
27 carefully the idea for stepped pricing for the water  
28 that Sydney Water purchases from the Catchment  
29 Authority. That is obviously not as appropriate for  
30 Hunter Water or Gosford and Wyong as they control  
31 their own bulk water supply, but that conflict of  
32 interest remains.

33

34 Demand management is a key issue for Hunter  
35 Water. As noted in their integrated water resource  
36 management plan, their current yield is about 72  
37 gegalitres, which is straining at the current  
38 sustainable yield of 73 gegalitres, and Gosford and  
39 Wyong are under severe pressure. It is clear that  
40 demand management is just as crucial an issue for  
41 the other water agencies as it is for Sydney Water  
42 and equally there is that potential conflict there  
43 between selling more water to maximise profit and  
44 ensuring compliance with demand management.

45

46 We suggest that where stepped pricing can't be  
47 applied for Hunter Water or for the other agencies  
48 that there does need to be a mechanism that ensures  
49 if demand management targets are breached that that  
50 revenue does not accrue to the corporation. In the  
51 case of Hunter Water, we suggest perhaps a  
52 requirement that any revenue that could be  
53 considered surplus revenue above that which the  
54 tribunal has allowed for when considering the demand  
55 management forecasts, be required to be hypothecated  
56 into non-price demand management programs.

57

58 We have been encouraged by some of the things

1 that Hunter Water has included in its draft water  
2 resources management plan in terms of non-price  
3 demand management, but the issue will always be the  
4 amount of resources that are devoted to that. If  
5 there is a breach of demand management targets -  
6 obviously at this stage Hunter Water has a  
7 residential target - we hope in the future there  
8 will be an overall target that includes the  
9 industrial sector. But if there is a breach at this  
10 stage of the target for the residential sector then  
11 there needs to be a mechanism whereby any excess  
12 profit is returned into demand management to address  
13 the failure to reach those targets. We believe that  
14 a variation of the approach the tribunal is  
15 considering for Sydney Water should be applied to  
16 other water agencies.

17

18 Related to demand management is the issue of  
19 the actual price for water. It is something that we  
20 have argued for for some years now, that there needs  
21 to be a shift in the two-part tariff away from  
22 reliance on fixed charges towards an increased  
23 reliance on volumetric usage charges. In that  
24 respect we support the proposal by Hunter Water that  
25 the fixed costs for water be reduced with a  
26 corresponding increase in volumetric cost.

27

28 We concur with their view that that is an  
29 appropriate method of sending a resource  
30 conservation signal and more particularly it has  
31 always been our concern that higher levels of fixed  
32 costs give customers less control over the size of  
33 their bill. It gives them less reward and less  
34 incentive for being more efficient in their water  
35 use practices and in perhaps in ensuring that they  
36 purchase and install more efficient appliances, that  
37 for instance they water their garden at night and  
38 put mulch on their gardens rather than watering in  
39 the middle of the day. So there is certainly a  
40 mechanism there and we support Hunter Water's  
41 proposals in that respect.

42

43 An area in which we do have a significant  
44 difference with them is the issue of third tier  
45 pricing for large volume users. It is fair to say  
46 we didn't like it when it was proposed, we didn't  
47 like it when it was introduced and a couple of years  
48 later we still do not like it. Irrespective of what  
49 the intent is of that third tier price, it is true  
50 that it sends a perverse water conservation signal  
51 to the largest users who you would have thought  
52 there is the greatest need to encourage more  
53 efficient water use practices and in particular a  
54 switch to effluent recycled use.

55

56 It is hard to see that the third tier pricing  
57 mechanism is anything other than an incentive to use  
58 more water and a mechanism for Hunter Water to sell

1 more water. It provides no incentive for those  
2 large volume users to become more efficient and that  
3 is a particular issue in the Hunter where we see a  
4 real risk that the growth in industrial uses could  
5 significantly challenge the demand management  
6 efforts of Hunter Water.

7  
8 It is a concern that we have in looking at  
9 Hunter Water's draft water resources plan, that  
10 there is an assumption that the exit of large  
11 industrial users will roughly be balanced by new  
12 operations coming into the industrial structure.  
13 That is a fairly risky assumption in that if it does  
14 not come to pass and there is a greater growth in  
15 new operations coming in which consume larger  
16 amounts of water than those dropping it out, that it  
17 could place a significant strain on the current  
18 water resources and increase pressure for  
19 augmentation.

20  
21 We are very concerned about that third tier  
22 structure and we believe it should be abandoned. We  
23 argued against it and we continue to argue against  
24 it. As I said, it is a disincentive for those large  
25 industrial users to adopt effluent reuse. Hunter  
26 Water, it is true, is doing well with around 11 per  
27 cent of their effluent recycled, but it is also true  
28 that most of that is in one application, and that is  
29 Eraring power station. There must be opportunities  
30 in the future with new industry to encourage more  
31 effluent reuse.

32  
33 I noted the comments of David Evans that  
34 obviously it depends on the structure, where they  
35 are located, but we need to be doing as much as  
36 possible to encourage the switch to effluent reuse.  
37 The third tier structure as it exists at present we  
38 see as a barrier to adopting effluent reuse.

39  
40 The only other issue I wanted to address was  
41 that of waste water charging. We have argued for  
42 sometime - and we argued in relation to this with  
43 Sydney Water - that we believe it is appropriate to  
44 maintain a two-part tariff pricing system for  
45 effluent reuse. It is appropriate in that it does  
46 send a demand management signal but it is also true  
47 that the environmental costs of waste water  
48 treatment and disposal should be factored into  
49 pricing, and those customers who contribute a  
50 greater volume of effluent to the system, by that  
51 very nature that has a higher environmental cost,  
52 treatment cost on the receiving environment, so it  
53 is appropriate that there be I guess a polluter pays  
54 signal inherent in the pricing structure for waste  
55 water.

56  
57 We would support Hunter Water's proposals that  
58 there be a reduction in the fixed component of

1 charge for waste water and an increase in the  
2 volumetric charge for waste water disposal.  
3 Obviously it is not a perfect system and at this  
4 stage probably the 50 per cent discharge factor is  
5 the most appropriate way to go.

6  
7 We would like to see some work down in the  
8 future which would give a more accurate figure on  
9 the contribution of various sectors to the effluent  
10 system which would allow a more cost reflective  
11 pricing system to be adopted but we certainly  
12 support the redemption of that two-part tariff and  
13 we would like to see it extended to the other  
14 agencies as well.

15  
16 DR PARRY: Thank you very much. On demand management  
and

17 price, I am sure you heard Dave Evans make the  
18 observation that the big gains, the big responses,  
19 came in the earlier years when the per kilolitre  
20 price went effectively from 0 to 94 cents, whatever  
21 it is, and that subsequent large impacts on demand  
22 would require, according to the evidence we have  
23 about price elasticities, quite a substantial  
24 increase in price. What is your view about that?  
25 Are you joining the cavalcade calling for a doubling  
26 in the price of water that I am reading in the press  
27 in the last few days?

28  
29 MR MARTIN: There certainly seems to be an increase.  
30 That does not have to mean an increase in the  
31 overall bills. There needs to be a reduction in the  
32 fixed component of the bill. We want to see a  
33 situation where customers have more control over the  
34 size of their bills. I understand there are equity  
35 issues there for large families, but equally there  
36 are more affluent families who may be using the  
37 water for purposes, swimming pools, large gardens,  
38 for instance, and I think there is a role there for  
39 non-price mechanisms as well, for water agencies to  
40 actively assist those customers who do have equity  
41 considerations, to retrofit Department of Housing  
42 residences is a classic example.

43  
44 While there may have been big gains made in the  
45 early 80s - and part of that was the fact at the  
46 time Hunter water was under restrictions as well -  
47 it is important that we don't lose any ground on  
48 those gains that were made and that the water  
49 conservation signal has to be maintained and  
50 strengthened to ensure that we don't go backwards.

51  
52 It is probably true that the demographics of  
53 the Hunter is that the population is growing,  
54 particularly with people moving from Sydney and the  
55 Central Coast. Those people probably weren't  
56 subject to the price shock in the 1980s that changed  
57 water behaviour here, so there are people moving  
58 into the area who perhaps don't have that longer

1 term lesson of water conservation that the people  
2 who have lived here for several decades would have  
3 had.  
4  
5 DR PARRY: Have you had an opportunity to look at and  
6 think about, aside from demand management, any other  
7 environmental priority that Hunter Water is  
8 identifying? Looking ahead, do you have a view  
9 about environmental standards and priorities for  
10 Hunter Water?  
11  
12 MR MARTIN: I am not sure what you mean.  
13  
14 DR PARRY: In terms of the sewerage works, in terms of  
15 improving standards, is that something that you have  
16 had a look at and have a view about?  
17  
18 MR MARTIN: We would always like to see a decrease in  
19 the volumetric discharge to receiving environments  
20 and that is where demand management is important,  
21 not just from the water conservation point of view  
22 but also from reducing the effects on receiving  
23 waters. We are encouraged by some of the things  
24 that are in their plan. Equally we have some  
25 concerns in that it is clear that Hunter Water is  
26 actively pursuing augmentation with the upgrading of  
27 the spillway at Grahamstown and the works at Tomago  
28 that we saw. We have got some concerns that Hunter  
29 Water is pursuing augmentation. We would like some  
30 other things pursued instead.  
31  
32 MR COX: Thank you. You mentioned your opposition to  
33 the discounted prices, or lower prices, for large  
34 water users arising out of third tier. You would  
35 have heard David argue earlier this afternoon that  
36 those prices are cost reflective. I would be  
37 interested in your comments on that? If a larger  
38 price were to be charged, that means the large users  
39 would be paying more for the cost of providing the  
40 service. If they were to be charged a water price  
41 in excess of what they are paying now, this might  
42 mean that they are paying in excess of the costs of  
43 providing them with the service. That is the first  
44 proposition.  
45  
46 The second one is, what evidence do you have  
47 that larger users make no effort to save water with  
48 the introduction of the third tier?  
49  
50 MR MARTIN: The second part first. It is not a question  
51 of there necessarily being evidence that there is a  
52 relaxation, it is the danger that the third tier  
53 proposal provides a lack of incentive to become more  
54 efficient in water use, in pursuing savings that  
55 could be there at present and also to switch to  
56 effluent reuse. I am not arguing that there is a  
57 case of the larger users becoming less efficient but  
58 the third tier pricing system certainly reduces the

1 incentive to become more efficient.  
2  
3 In terms of the first part of your question, I  
4 think that it is a narrow view to look at it in  
5 terms of the cost of delivering the water in that  
6 the environmental costs of large water users has to  
7 be borne in mind as well. Those large water users  
8 inherently have a large environmental cost because  
9 it places more of a burden on current water  
10 resources. It could increase in the future the  
11 pressure for supply augmentation and also, in the  
12 case of large water users, if we could make them  
13 more efficient and reduce the current demand for  
14 fresh water that could increase opportunities for  
15 environmental flows or, in the case of Grahamstown,  
16 reduce the amount of water that needs to be drawn  
17 from the Williams River for storage in Grahamstown  
18 Dam. The view that lower prices would reduce their  
19 cost of delivery does not adequately take into  
20 account the environmental costs of larger water  
21 users.  
22

23 DR PARRY: Thanks very much.  
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1 INCITEC LIMITED

2  
3 DR PARRY: We now have Incitec, and I ask you please to  
4 identify yourselves for the record.

5  
6 MS IP: Christine Ip. Thank you for inviting us today.

7 My name is Christine Ip and I would also like to  
8 introduce Mary Goodwin. We will be sharing  
9 Incitec's thoughts on the current review of water  
10 pricing. Also present is Sean Winstone, Newcastle  
11 Manufacturing Manager.

12  
13 We will start with a short overview of  
14 Incitec's operations and then we will cover some key  
15 concerns that we have with the water pricing review.  
16 We will finish with a brief summary, at which point  
17 we will be happy to take questions from the panel.

18  
19 Incitec is the largest manufacturer and  
20 supplier of fertiliser in Australia. We compete  
21 with imported products we have two main  
22 manufacturing facilities in Australia, one at Gibson  
23 Island, Brisbane and the other at Kooragang Island.  
24 This water pricing review will effect our Kooragang  
25 Island site because it is a water only customer of  
26 Hunter Water.

27  
28 There are four plants on-site producing  
29 ammonia, ammonium nitrate, nitric acid and  
30 granulated fertilisers. Water is a critical input  
31 in all of these processes for cooling, steam  
32 generation general process. Water is our third  
33 highest input expense.

34  
35 Mary and I will cover some of the concerns we  
36 have with the pricing review. We don't believe that  
37 the proposed three tier price increase of 2.3 per  
38 cent for Kooragang Island is reasonable when the  
39 average increased of other zones is only 0.3 per  
40 cent. We don't understand the proposed combination  
41 of Kooragang and Tomago into one zone. As you are  
42 aware, Tomago's proposed third tier price will  
43 decrease by 2.7 per cent.

44  
45 We question whether these two factors together  
46 are the reason for Kooragang's substantial price  
47 increase. As you can see, there is an obvious  
48 difference in Kooragang's price increase when  
49 compared to other zones. Incitec is such a large  
50 and consistent consumer, our overall water cost will  
51 increase by 2.2 per cent, even after taking into  
52 account first and second tier price increase of 1  
53 per cent.

54  
55 MR GOODWIN: We have argued for sometime that it is  
56 essential for industrial users to have a right to  
57 negotiate with Hunter Water Corporation. While we  
58 have been pleased with the current third tier

1 pricing scheme and are in support of this remaining  
2 in place in the next pricing determination, we were  
3 less than thrilled when we had to wait for one whole  
4 year into the current price path for this to be  
5 implemented.

6  
7 Hunter Water Corporation was not prepared to  
8 negotiate with us in this instance. It did not have  
9 to.

10  
11 You would have seen from our first slide the  
12 Incitec site at Kooragang island. However, the  
13 bizarre fact is that Hunter Water Corporation treats  
14 us as two separate water consumers, charging us two  
15 different prices and issuing us with two separate  
16 accounts. This does not make sense to us and while  
17 we have approached Hunter Water Corporation several  
18 times, we have been unable to move this issue  
19 forward.

20  
21 These are two clear examples where we have not  
22 had the ability to negotiate, nor an arbitration  
23 avenue to call upon. We urge IPART to stipulate  
24 clearly in this determination not only the right to  
25 negotiate but also importantly to provide for  
26 arbitration in the event that agreement cannot be  
27 reached.

28  
29 We are simple people with simple requirements.  
30 As Christine mentioned earlier, we are water only  
31 customers and as such we are interested in only  
32 paying for this service. We found it difficult to  
33 glean from the information provided just how the  
34 prices are in fact derived. This information would  
35 be very useful, particularly if provided in a dollar  
36 per kilolitre format, referencing such things as  
37 margin, capital expenditure, depreciation, raw water  
38 storage, chemical treatment and transportation, just  
39 to name a few.

40  
41 We have concerns with respect to potential  
42 cross-subsidies, not only between Hunter Water  
43 Australia and Hunter Water Corporation but also  
44 between the different businesses within Hunter Water  
45 Corporation, that is, the water, sewer and  
46 stormwater businesses. We believe that access to  
47 the individual financial summaries may be of  
48 assistance here in allaying our concerns.

49  
50 We also referenced earlier our opposition to  
51 the Hunter Water Corporation proposal to combine  
52 Tomago and Kooragang into one zone. We argue that  
53 it is not fair to justify Tomago's reduction through  
54 a price subsidy from Incitec.

55  
56 MS IP: We are concerned with the proposed move away from  
57 a pricing mechanism that promotes continuous  
58 improvements. Therefore, we strongly support the

1 current CPI-x method, provided that x stays  
2 positive. It creates an incentive for continuous  
3 improvement and cost reductions. It does not allow  
4 the water agencies to simply pass the cost of their  
5 inefficiencies through to their customers.  
6  
7 There was very little information provided to  
8 us using a CPI only model. What activities is  
9 Hunter Water Corporation going to undertake to  
10 minimise costs in the future? We have seen their  
11 capital expenditure increase dramatically and by  
12 their own prediction this upward trend will  
13 continue. We are not expert enough in the water  
14 supply business to determine the optimal capital  
15 expenditure, but office relocation costs of \$11.6m  
16 certainly attracted our attention. Are there other  
17 cheaper alternatives or are the costs just going to  
18 be passed through to customers.  
19  
20 By the same token, there is some suggestion  
21 that there is no incentive for industrial customers  
22 to be responsible with their water usage. Within  
23 Incitec costs certainly drive saving initiatives but  
24 it is not the only driver. We have a strong  
25 commitment to our environment and to the community  
26 where non financial benefits also count. As you can  
27 see, these are of some of our water conservation  
28 initiatives, saving a total of 1.3 gigalitres over  
29 the last ten years, or 5 per cent of our annual  
30 water usage.  
31  
32 Next are projects that we have got in the  
33 pipeline for next year. With customer service, we  
34 question the need to trade off cost and service  
35 levels. In our experience, an increase in service  
36 level is usually accompanied by increased business  
37 between the parties not just in supply, but from the  
38 partnership creating innovative solutions.  
39  
40 On that basis alone, we question the belief  
41 that there is a willingness to pay for higher  
42 service levels. We would expect an understanding  
43 that having the equivalent usage of 12,000 domestic  
44 customers requires a different kind of customer  
45 service. Much is made in the submission of Hunter  
46 Water Corporation that customers should be educated  
47 about their proposed enhancement to service, but  
48 little was said about Hunter Water Corporation  
49 understanding their customers' business  
50 requirements. Surely this is the first step to  
51 improved customer service. An ideal scenario would  
52 see all levels of our organisations working together  
53 to identify where we can develop mutual benefit.  
54  
55 MR GOODWIN: In summary, what are the key issues for  
56 Incitec. We would like you to leave today with an  
57 understanding that water is a key input into our  
58 processes and is a significant contributor to our

1 costs per tonne. The proposed water price increase  
2 is unreasonable when compared to the other zones.  
3  
4 The third tier is important to Incitec. We  
5 have shown you only some of our demand management  
6 initiatives over the years and some we have planned  
7 for this next year. Price increases do not send  
8 conservation signals to us. Water is a requirement  
9 for all our processes. We need a right to negotiate  
10 and an avenue for arbitration. It is no use saying  
11 that as we are a large user we have should be able  
12 to. Whilst we may like the people we deal with,  
13 this is still a monopoly provider.  
14  
15 Hopefully the examples we provided earlier will  
16 be useful in evidencing the importance of rectifying  
17 this. Transparency of information is a key to us  
18 understanding how the price is derived and that no  
19 cross-subsidies exist. More information in terms of  
20 dollars per kilolitre is needed.  
21  
22 Continuous improvements: There seems to be  
23 conflicting information. On one side we have a  
24 commitment from Hunter Water Corporation to pursue  
25 continuous improvements, which is promoted by a  
26 CPI-X pricing mechanism. However, on the other side  
27 they have argued the need to move away from that.  
28 Where is their incentive to pursue new initiatives?  
29 What are the activities it is going to undertake to  
30 minimise costs? We are not experts in the water  
31 supply business. However, we have questioned the  
32 seemingly exorbitant office relocation costs and we  
33 have also highlighted our requirement to only pay  
34 for things that relate to water supply for Kooragang  
35 Island.  
36  
37 To this end, we must rely on IPART to ensure  
38 these issues are answered sufficiently.  
39  
40 Customer service: As one user who is  
41 equivalent to 12,000 domestic households, we have  
42 argued that there is a need for a different type of  
43 customer service and we have challenged to the  
44 contrary the assumption of a willingness to pay. We  
45 see this as quite simply working together. We can  
46 point to examples where we are doing this with major  
47 suppliers who are traditionally monopolies at the  
48 moment, that is, developing ideas of value and  
49 mutual benefit.  
50  
51 We are taking this matter seriously, as it is  
52 really about ensuring our future as a manufacturer.  
53 To take this one step further, we weren't surprised  
54 to see that the values of Hunter Water Corporation  
55 are not that dissimilar to those of our own company.  
56 First, straight from their vision, "caring for the  
57 community and the environment", a top priority.  
58 Incitec advocates, "no injuries to anyone ever and

1 valuing people and the environment".  
2  
3 We also have quite a crucial community and  
4 environmental charter. Second, Hunter Water States  
5 "be commercially successful". Incitec's principle  
6 is "run the business as if it's your own" or  
7 "commercial ownership", again, almost the same  
8 words. Next, "deliver value for money water".  
9 Incitec counters with, "think differently, deliver  
10 swiftly and capture the value". Incitec has one  
11 more principle, "working together". Using this  
12 principle, we would like the opportunity to work  
13 together with Hunter Water Corporation at all  
14 levels, identifying areas of mutual benefit and  
15 value and assisting each other to deliver against  
16 the promise of our company's vision. Thank you.  
17  
18 DR PARRY: Thank you very much for that. I don't know  
19 the Kooragang site, obviously. You say you receive  
20 two separate bills, two meters. Are both meters in  
21 the Kooragang zone?  
22  
23 MS IP: They are.  
24  
25 DR PARRY: So both meters will be subject to the proposed  
26 2.3 per cent sought tier three price increase?  
27  
28 MS IP: One part of it. One actually has got smaller  
29 consumption, so it is only subject to tier one and  
30 two three.  
31  
32 DR PARRY: The second one is the large tier three, I  
33 understand. You indicated that water was your third  
34 largest, in terms of dollars, consumable. Have you  
35 modelled the likely percentage increase and costs  
36 per tonne of the proposed or sought 2.3 per cent  
37 increase in tier three?  
38  
39 MS IP: We know how much it will cost us and we are happy  
40 to share that information after the meeting.  
41  
42 DR PARRY: If you can give that on a confidential basis  
43 to us, please, but make sure it is stamped  
44 "commercial in confidence" so that we can see what  
45 the impacts are. You also did put up a slide - I  
46 think we might get a copy of your overheads - which  
47 showed your recent and proposed initiatives to  
48 reduce water consumption. Does that about exhaust  
49 opportunities for reducing water consumption by  
50 Incitec, what you have done and what you are  
51 proposing for the next year or so, or is there more  
52 in the pipeline?  
53  
54 MR WINSTONE: I think there is always more in the  
55 pipeline. I take a somewhat dissimilar view I guess  
56 to Hunter Water Corporation in this respect in terms  
57 of productivity benefits. My view of productivity  
58 is that the reason why you can't see what is next is

1 that you are not thinking broadly enough and you are  
2 not thinking laterally enough to achieve the right  
3 result. It comes about from, I guess in terms of  
4 Incitec, using us as an example, similar to Hunter  
5 Water we have seen a 40 per cent reduction in the  
6 costs of running our business and we have had to do  
7 that to maintain competitiveness in inputs over the  
8 last 10 or 11 years.  
9  
10 If you came and asked me any time -  
11 and I have worked for Incitec all that time - well,  
12 what is the next productivity move, what is the next  
13 project, I would say, "we have done everything".  
14 Yet year after year we keep finding things to do  
15 because we have to maintain our business's  
16 profitability and we continue to do that. I don't  
17 see it as an exhaustive list at all. If you asked  
18 me what the next thing is, I don't exactly know what  
19 that is right at this point, apart from the projects  
20 we have identified.  
21  
22 MR COX: As you would have heard this afternoon, there  
23 is some opposition to the third tier in Hunter  
24 Water's price. I would like to give you the  
25 opportunity to talk about how important it is to  
26 your business and also if you wished to address the  
27 argument that it reduces incentive for you to make  
28 savings in your water use?  
29  
30 MR WINSTONE: As you may or may not know, we are part  
31 of  
32 the Orica Group of companies. If you have followed  
33 Orica for the last couple of years, through  
34 achieving fairly poor business returns, or what we  
35 considered reasonable business returns, didn't win  
36 any favour in the stock market and the share price  
37 dove down from \$13 in 1997 to \$4 in late 2000.  
38 Since then there has been a bit of a turn  
39 around, and that has been based on the fact that  
40 every business must reach a certain return on  
41 investment. That number is in the public domain,  
42 that is 18 per cent, and that is basically 18 per  
43 cent return on net assets. The asset value of  
44 Kooragang Island is quite low and we are quite  
45 fortunate in that it is quite old.  
46  
47 Having said that, getting 18 per cent is still  
48 pretty hard to do, especially in a business that is  
49 driven by worldwide competitiveness and all that  
50 sort of thing, so when we look at third tier  
51 pricing, as we look at any of the pricing of our  
52 major raw materials, which are primarily gas,  
53 electricity and water in that order, when you take  
54 that through and look at the business that you are  
55 in, the margin that you are taking out of some of  
56 the business that we have right at the moment, just  
57 to keep our plant operational, especially in this  
58 time of drought, is pretty ordinary stuff.

1  
2 Without the third tier pricing there - again I  
3 can give you marginal profits on marginal costs in  
4 commercial in confidence - any sort of increase in  
5 any of the marginal costs, our raw materials costs,  
6 would damage our margins to a certain extent.  
7  
8 The third tier pricing also affects us being  
9 able to export. Again, on a marginal basis, it  
10 allows us to do that. Without that third tier in  
11 place, it puts pressure on us being able to run our  
12 plants at maximum productivity type levels. The  
13 name of the game in the fertiliser business is when  
14 you have an asset it is called "milking the asset"  
15 or "sweating the asset". It is all about running as  
16 hard as you can for as long as you can at the best  
17 efficiency that you possibly can. That is the only  
18 way to have a competitive business.  
19  
20 Because our assets are old, around about now a  
21 third of the size of current world class assets, and  
22 those assets require no more fixed costs to operate,  
23 the maintenance bill is the same, the labour bill is  
24 the same, so the real competitive edge that we may  
25 have had in the past is slightly getting eroded by  
26 bigger assets being built close to us in Indonesia,  
27 Malaysia and so on.  
28  
29 MR COX: Incentives?  
30  
31 MR WINSTONE: The incentives to use less water, we see a  
32 lot of that coming from the other side, from the  
33 EPA's regulatory efforts. We have, as does Hunter  
34 Water, a number of pollution reduction plans in our  
35 EPA licences. We continue to focus on minimising  
36 our impact on the community. Underneath the banner  
37 of "care for people and the environment", one of our  
38 goals is to have a stateable operation from an  
39 environmental point of view. We certainly believe  
40 that a big part of that sustainability is about  
41 minimising our impact on the environment, both in  
42 our airborne polluters and in water-borne  
43 discharges. We work on a number of fronts in that  
44 area.  
45  
46 The incentive for us does not really come about  
47 - we are actually approaching it from the other  
48 side. Rather than from the it is costing us lots of  
49 money side, what we find is that we make  
50 environmental improvements and we get a benefit,  
51 typically not enough to justify the improvement.  
52  
53 To refer to one of the comments that Leigh made  
54 before about the reuse of effluent, we did look at  
55 that project quite seriously in the late 1990s early  
56 2000. Unfortunately, unless the water price was -  
57 the order of magnitude is higher than where it is  
58 now, that project is not a viable project. Even

1 before you take into consideration the health  
2 aspects of the workers on the site from the chance  
3 of airborne emissions from cooling towers and stuff  
4 like that. Unfortunately it is not a case of  
5 whether it is 5 cents more it will solve the  
6 problem, it needs to be many dollars more to solve  
7 the problem.  
8  
9 MR COX: My final question is on standards of service.  
10 Are you not getting the standards of service from  
11 Hunter Water you think you would like to get or you  
12 would just like there to be more discussion and  
13 communication. What is the issue?  
14  
15 MR GOODWIN: It is really a bit of both. Our argument  
16 today was really that we are a large user and  
17 equivalent to about 12,000 households. Because of  
18 that in itself we think we need to be dealt with in  
19 a different way. Communication is a big part of  
20 that. George Leong, our contracts manager on  
21 Kooragang site, just actually met for the first time  
22 today some of the people from Hunter Water  
23 Corporation. If we are one of Hunter Water  
24 Corporation's largest customers, we think that does  
25 really require a little bit more communication and  
26 not on the off chance that we are actually ringing  
27 them up to say our bill is wrong, but more to say,  
28 "hey, we are similar businesses, we have similar  
29 requirements, are there some smarter things we can  
30 be doing together to help each other out".  
31  
32 DR PARRY: Thank you very much. If we could get copies  
33 of those overheads and those two sets of figures,  
34 commercial in confidence, which you can arrange  
35 through the tribunal. Thank you very much indeed.  
36  
37  
38  
39  
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41  
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58

1 PUBLIC INTEREST ADVOCACY CENTRE  
2  
3 DR PARRY: Last but certainly never least, we have the  
4 Public Interest Advocacy Centre. Thank you for  
5 coming all this way, Jim. Please introduce yourself  
6 formally and proceed.  
7  
8 MR WELLSMORE: Jim Wellsmore, from the Public Interest  
9 Advocacy Centre. It is always a pleasure to appear  
10 at these events.  
11  
12 I don't think there is a lot that I can add to  
13 our written submission. I think the nature of the  
14 process this time, the idea of a two-year price  
15 path, has given people an opportunity to probably  
16 defer some of the kind of pointed or more difficult  
17 questions. You will note from our written  
18 submission that we are quite supportive of the idea  
19 of a tiered price path in this instance.  
20  
21 Having said that, we are broadly supportive of  
22 the proposals that have come from Hunter Water in  
23 this case. We are not completely satisfied or  
24 happy. We have some concerns. One of those relates  
25 to capex and other speakers have touched on that as  
26 well. I think that some of the comments that David  
27 Evans made earlier in relation to capex probably  
28 address some of our concerns.  
29  
30 There is I think a question as to how  
31 open-ended the current rate of growth would be.  
32 David suggested there is sort of something on the  
33 horizon that will give us some comfort there. We  
34 are also a bit concerned about an implication in the  
35 submission of Hunter Water that future price  
36 increases might need to be more significant. Some  
37 of the discussion was around the recoverable amount  
38 test and so on. That is a difficult thing for us to  
39 comment on because we are not accountants, but it  
40 maybe that that is an issue that we need to get into  
41 the next time round in relation to the WAC and rate  
42 of return and so forth.  
43  
44 On the sewerage side in particular I just draw  
45 out the point made in our written submission about  
46 the distribution of costs between fixed and  
47 volumetric components of the bill. We have a  
48 particular view there should be weight given to  
49 volumetric or fixed charges. As we said in relation  
50 to some of Sydney Water's proposals, we figure there  
51 are equity concerns in either direction, whether you  
52 go for a larger fixed component or a larger reliance  
53 on the volumetric component of bills. Given that  
54 the current paradigm is for a two-part tariff, we  
55 think there needs to be a fairly substantive  
56 argument to really justify moving away from a  
57 two-part tariff and moving in the direction of a  
58 single path tariff.

1  
2 That is really just based on our concerns on  
3 equity and just not being able to know what the  
4 equity outcomes would be. More volumetric is good  
5 for some people in equity terms but bad for others.  
6  
7 Miscellaneous charges with Hunter Water is  
8 something that we have got a couple of questions  
9 about. The dishonoured payment charges is one of  
10 those. It seems to be proposed that in Hunter  
11 Water's case those charges will be quite different  
12 from those that Sydney Water is using. We are not  
13 really clear about why there ought to be that  
14 difference and at the end of the day we think they  
15 should be the same, and as low as possible  
16 obviously, I guess it goes without saying.  
17  
18 The other area in terms of the miscellaneous  
19 charges is the charges levied on customers around  
20 disconnection and reconnection, particularly in  
21 terms of unrequested restrictions and so forth,  
22 people for one reason or another who have not been  
23 in a position to pay their bills. Again there  
24 appears to be - we are not totally clear what is  
25 proposed or how well or poorly it compares with  
26 Sydney Water, but our reading of Hunter Water's  
27 proposal is that there is quite a difference and  
28 again we would have hoped that as much as possible  
29 the charges for disconnection or restriction and  
30 then having that disconnection or restriction lifted  
31 around issues of non-payment of bills - we would  
32 have hoped that the charges would be as close as  
33 possible, and again as low as possible, and  
34 certainly it would appear from our reading that  
35 other organisations' charges are significantly lower  
36 than what Hunter Water is proposing. That pretty  
37 much covers our concerns, I think.  
38  
39 DR PARRY: Thank you. On some of those specifics no  
40 doubt we will follow those up and get back to you  
41 and to others.  
42  
43 Just a couple of questions. Hunter has been  
44 increasing its minimum sewer service charge and  
45 fixed charge for flats and units and it is proposing  
46 to increase it again from \$80 to \$100 next year in  
47 2003/04 and to \$120 in 2004/5. Do you have a view  
48 on the impact of this increased fixed charge for  
49 sewer service for units and flats?  
50  
51 MR WELLSMORE: To be honest, it is not something that we  
52 put a lot of analysis or assessment into when  
53 drafting our written submission. To us, though, it  
54 is probably a reasonable attempt to balance up the  
55 issues. Of course, in an ideal world costs would  
56 never go up for anybody. We would be living happily  
57 with the fairies at the bottom of the garden if we  
58 believed that could happen.



1  
2 From our perspective the views that have been  
3 put forward, or the arguments put forward, about  
4 providing some kind of consistency are fairly strong  
5 ones. We stand to be corrected if someone can  
6 demonstrate that a \$20 lift to a service charge on  
7 an annual basis is a significant problem. I suppose  
8 there will be households where that is true, but in  
9 that case I would think that the sewer charge is  
10 probably not the biggest concern a household has.  
11  
12 The short answer is we are fairly happy,  
13 relaxed, about that given the need to balance other  
14 considerations.  
15  
16 DR PARRY: I note you raised this in Sydney - because I  
17 have seen it in the transcript and I have been told  
18 but I personally missed it. Apart from a personal  
19 interest in hearing you and your views I think it is  
20 worth having it on the record with respect to Hunter  
21 Water, and that is the view of PIAC with respect to  
22 what may well need to be substantial price increases  
23 either to have a direct effect on demand or to  
24 better fund or fund more non-price demand management  
25 activities, speaking particularly from the point of  
26 view of equity?  
27  
28 MR WELLSMORE: I think PIAC - I want to take the broadest  
29 public interest - sees that there is a lot of merit  
30 in demand management and support of demand  
31 management to the point that where demand management  
32 actually imposes some costs onto end users, in our  
33 case particularly low income households, that might  
34 still be a perfectly viable proposition.  
35  
36 The point we were trying to make in relation to  
37 Sydney Water is that we would prefer the demand  
38 management effort wasn't led by prices, that if  
39 there are other tools available, other options that  
40 are there, they ought to be examined first, and  
41 examined also on the basis of their funding and  
42 pricing implications.  
43  
44 We are very much of the view that let's get all  
45 those options on the table and have an effort made  
46 to cost them and work out what sort of a return we  
47 will get for those sorts of costs. It maybe that  
48 significant demand management is achievable without  
49 any increase in prices. We would be obviously very  
50 happy about that. It may be that in order to make  
51 the kinds of savings, the gains in demand  
52 management, meeting viable yields and so forth, that  
53 some small increase is warranted.  
54  
55 PIAC would certainly want to be open-minded  
56 about that possibility, but to see demand management  
57 led in the first instance by price increases is not  
58 a viable proposition at all, particularly given the

1 equity concerns, not only equity concerns, just the  
2 effectiveness of it. We have found the tribunal's  
3 modelling of elasticity of demand to be quite  
4 compelling and it is not out of whack with what  
5 others are suggesting. You might want to raise the  
6 price, but to what end.  
7  
8 MR COX: Earlier this afternoon Hunter pointed to a  
9 situation of increased spending, particularly on  
10 capital works, and prices more or less keeping in  
11 line with CPI. Is this a satisfactory outcome from  
12 the point of view of consumers  
13  
14 MR WELLSMORE: We are in a difficult position really to  
15 grapple with the fine detail of capex and opex. It  
16 is pretty much beyond our resource levels and our  
17 capabilities. To a large extent we are in the hands  
18 of the Tribunal and its discussions with Hunter  
19 Water or any of the regulated businesses as to what  
20 really ought to be the appropriate outlay on capital  
21 expenditure. We certainly don't want to see a  
22 situation where, as I said at the Sydney Water  
23 hearings, of lean and mean, that it becomes weighted  
24 more towards the lean, where there are implications  
25 for the Hunter workforce, for water quality, supply  
26 and so forth.  
27  
28 Having said all that, ideally if in fact capex  
29 could be reined in irrespective of whether prices  
30 are going up or down, that seems to be a good  
31 outcome, to simply be able to keep prices level at  
32 capex, not really making a great attempt to rein in  
33 capital expenditure costs because no one is  
34 complaining, that probably is poor practice.  
35  
36 I don't want to tell the tribunal how to suck  
37 eggs. Equally I am not trying to suggest that  
38 Hunter Water is supporting that scenario. It is a  
39 question of principle, that if it is possible to  
40 reduce capex further, clearly we would like to see  
41 that being done.  
42  
43 MR COX: Just to be clear in my own mind, Hunter is  
44 proposing variations of fixed and usage charges, so  
45 the usage charge becomes more important. You have  
46 no concerns about that, that seems to be an okay  
47 thing from your point of view?  
48  
49 MR WELLSMORE: We can't give you an answer about what  
50 the  
51 most appropriate balance should be between fixed and  
52 volumetric charges. We think there is a case to  
53 retain both elements in prices. How far you can  
54 take that balance one way or the other is I suppose  
55 in our view still open to debate. But we do say we  
56 have concerns if the end goal was to completely do  
57 away with one of those two elements, to bill  
58 completely on volumetric or on fixed charges. That  
probably doesn't answer your question in a helpful

1 way.

2

3 MR COX: It does not suggest that you have major  
4 concerns with what they are proposing?

5

6 MR WELLSMORE: That is correct.

7

8 DR PARRY: Thank you. That ends today's hearings. We  
9 resume in Gosford/Wyong tomorrow.

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11 (At 4.35pm the tribunal adjourned until  
12 Tuesday, 10 December 2002 at 10.30am  
13 in Gosford)

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