



PUBLIC HEARING
FOR THE REVIEW OF
HUNTER WATER'S PRICES
from 1 July 2020



Issues Paper Update

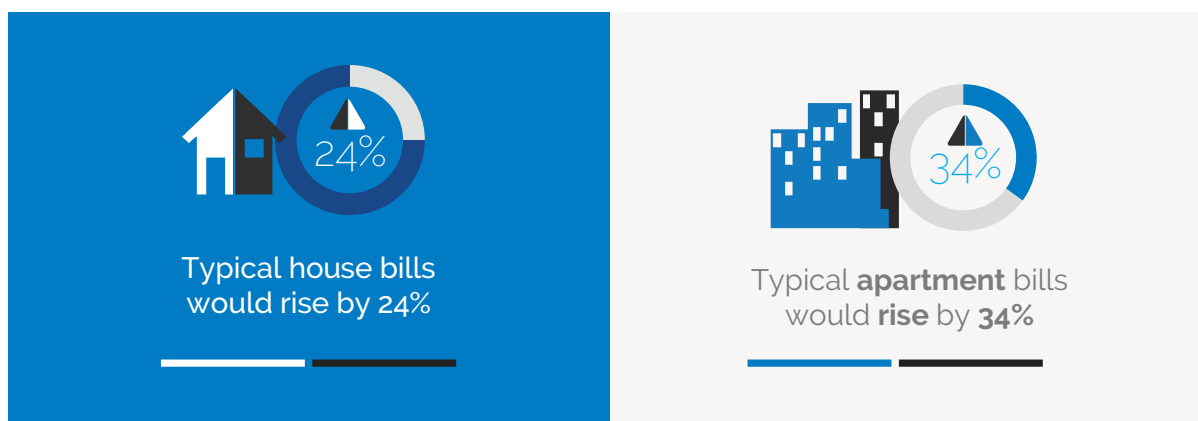
WATER REVIEWS

November 2019

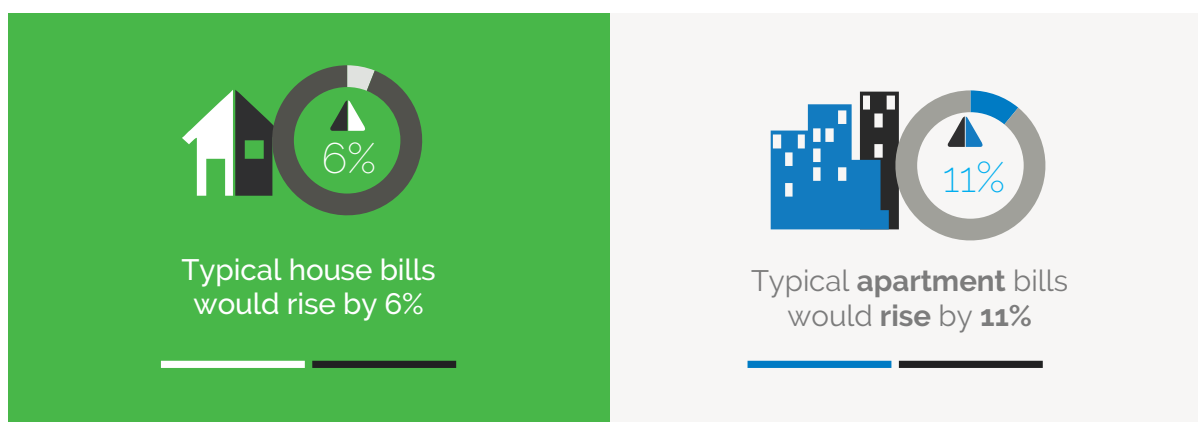
IPART PUBLIC HEARING TUESDAY 19 NOVEMBER 2019 NEWCASTLE

1 Hunter Water's Proposal

- ▼ Hunter Water provided its proposal to IPART on **1 July 2019**. Under this proposal, over 5 years and including inflation:
 - Typical **house** bills would **rise** by **24%**
 - Typical **apartment** bills would **rise** by **34%**



- ▼ In response to the release of our Issues Paper, on **21 October 2019**, Hunter Water altered its proposal. Under this submission, over 5 years and including inflation:
 - Typical **house** bills would **rise** by **6%**
 - Typical **apartment** bills would **rise** by **11%**



- ▼ These lower bills are largely due to lower interest rates,¹ which has meant lower costs to Hunter Water. However, if interest rates rise again in the future, there will be further bill impacts.
- ▼ On **6 November 2019**, Hunter Water provided a supplementary submission, which included a proposed:
 - Move from a 5-year determination period to 4 years
 - Modified demand volatility allowance with 2 trigger points - so that water prices rise after water restrictions are implemented to cover lost revenue from reduced water sales.
- ▼ Hunter Water's revised proposal contains a revised set of prices for water, wastewater and stormwater services. These can be found at the end of this document, in Section 6. The following table shows indicative bill impacts.

2 Indicative bill impacts (including inflation)

Residential property type	Typical bill 2019-20 (current prices) \$	Typical bill in 2024-25 (1 July proposal) \$	Change 2019-20 to 2024-25 (1 July proposal) %	Typical bill in 2024-25 (21 October submission)	Change 2019-20 to 2024-25 (21 October submission)	
					\$	%
House – including stormwater	1,316	1,635	24.2	1,391	75	5.7
House – excluding stormwater	1,236	1,515	22.6	1,289	53	4.3
Pensioner household – excluding stormwater	672	868	29.2	701	29	4.3
Apartment – including stormwater	984	1,316	33.7	1,090	106	10.8
Apartment – excluding stormwater	955	1,272	33.2	1,052	97	10.2

Note: Bills include inflation at the rate of 2.5% per year over the 5-year period.

¹ The assumed rate has moved from 4.1% to 3.2% for calculating the return on Hunter Water's asset base.

3 Summary of submissions to our Issues Paper

We have received 56 formal submissions to our Issues Paper and 22 online feedback comments. Several themes emerged, which will be addressed today:

- ▼ Affordability of price increases (we note that proposed prices will likely be lower)
- ▼ The level of usage charges
- ▼ The level of fixed charges
- ▼ Removing discounts for large water users.

4 Questions for discussion at today's public hearing

We list below the questions we are seeking feedback on today. There will be opportunity for you to discuss these and any other relevant questions that arise during the public hearing.



Session 1

Key issues affecting prices

1. Do you have any comments on Hunter Water's proposed prices?
2. Should we consider higher water usage charges during droughts?
3. Should we remove the discounts for very large water users?
4. Should apartments pay the same water and wastewater service charge as houses?
5. Should we set prices for four or five years?



Session 2

Hunter Water's expenditure and service levels

6. Do you agree with Hunter Water's approach to improving performance? Do you have further questions or comments on Hunter Water's performance?
7. Has Hunter Water done enough to improve efficiency?
8. Do you have any comments or questions on Hunter Water's proposed capital expenditure?



Session 3

Other issues

9. What should we consider in assessing whether discretionary expenditure should be recovered from Hunter Water's customers?
10. Should the costs of discretionary expenditure be recovered through a separate charge on customer bills?
11. Do the changes to the trade waste charges meet the pricing principles and are they reasonable?
12. Are any changes to miscellaneous charges unreasonable?
13. Is the proposed \$27.85 charge for declined and dishonoured payments at an appropriate level?

5 Hunter Water's updated prices - Residential and non-residential

Table 1 Hunter Water's proposed charges for major residential services from 1 July 2020 (\$2019-20 – ie, excluding the effects of inflation)

Charge description	2019-20	2024-25 (1 July proposal)	2024-25 (21 October submission)	Change by 2024-25	
				\$	%
Water					
Usage (\$/kL)	2.39	2.51	2.51	0.12	5.0
Service – houses & apartments	100.88	97.24	7.88	-93.00	-92.2
Wastewater^a					
Service - houses	762.11	941.89	794.65	32.54	4.3
Service - apartments	628.74	894.79	754.92	126.18	20.1
Stormwater					
Houses	80.01	106.14	90.24	10.23	12.8
Apartments	29.61	39.28	33.39	3.78	12.8

Source: Hunter Water, *Review of Prices for Hunter Water – Response to IPART Issues Paper*, 21 October 2019, pp 6-7; and IPART calculations.

Table 2 Hunter Water's proposed charges for major non-residential services from 1 July 2020 (\$2019-20 ie, excluding the effects of inflation)

Charge description	2019-20	2024-25 (1 July proposal)	2024-25 (21 October submission)	Change by 2024-25	
				\$	%
Water					
Usage - (\$/kL) ^a	2.39	2.51	2.51	0.12	5.0
Service - small customers (20mm meter stand-alone)	100.88	97.24	7.88	-93.00	-92.2
Wastewater					
Usage non-residential (\$/kL) ^b	0.67	0.59	0.59	-0.08	-11.9
Service - small customers (20mm meter stand-alone)	842.51	1,012.69	865.45	22.94	2.7
Stormwater					
Small (<1,000m ²) or low impact	80.01	106.14	90.24	10.23	12.8
Medium (1,001 to 10,000m ²)	261.31	346.64	294.71	33.40	12.8
Large (10,001 to 45,000m ²)	1,661.94	2,204.61	1,874.36	212.42	12.8
Very large (>45,000m ²)	5,280.39	7,004.60	5,955.31	674.92	12.8

^a First 50,000 kL per year. Currently, some users receive a discount for usage exceeding 50,000 kL per year.

^b Charge for volume of wastewater in excess of the discharge allowance (120kL per year in 2019-20).

Source: Hunter Water, *Review of Prices for Hunter Water – Response to IPART Issues Paper*, 21 October 2019, pp 9-10; and IPART calculations.

6 Update to our Issues Paper

In our Issues Paper we outlined a number of preliminary positions on key issues identified in Hunter Water's proposal. We provide an update here on key issues that are affected by Hunter Water's proposed changes.

Topic	Hunter Water's Revised Proposal
How long we set prices for	5-year determination period, now proposing 4 years. We will consider the determination period after the public hearing.
Modified Demand volatility	New 'modified demand volatility adjustment mechanism', triggered by mandated water restrictions and water sales 5% below IPART's allowance. Allows Hunter Water to recover lost water revenue through a water service charge adjustment in the following year.
Operating expenditure	Average annual proposed expenditure is 10.3% higher than we used to set prices in 2016. Drivers include labour costs, treatment plant operations, and energy expenditure.
Discretionary spend	Proposed \$25.1 million in capital expenditure for discretionary projects revised to \$17.3 million. The scope of the proposed initiatives remain unchanged.
Return on assets	Proposed WACC is 4.1%. Hunter Water supports using our standard methodology, which at this moment produces a WACC of 3.2%. We will calculate the WACC using our standard methodology, applying updated market information for our Draft Report and Final Report.
Water sales and customer numbers	Revised water sales derived using new climate-correction methodology. Water sales are 2.3% higher than those in the original pricing proposal, driven by increases in non-residential demand.
Prices – Water services	Usage charge (residential and non-residential) – increase of around 1% per year over 5 years, excluding inflation. We will review estimates of LRMC using best available information to ensure the usage price is set at appropriate levels.
Prices – Wastewater services	Usage charge (non-residential) – maintain constant at \$0.67 per kL in nominal terms for non-residential customers. Note: there is no explicit wastewater usage charge for residential customers.
Prices – Stormwater services	Service charge (residential and non-residential) – increase of around 13% over 5-year period, excluding inflation, to recover proposed increased investment in stormwater assets.