

IPART RELEASES DRAFT DETERMINATION ON WATER PRICES FOR THE HUNTER

Embargoed until 9.30am, Friday 24 April 2009

The Independent Pricing and Regulatory Tribunal (IPART) today released its draft determination on water, sewerage and stormwater charges to apply from the date the determination is gazetted by the New South Wales Government until 30 June, 2013.

IPART is seeking written comments on the draft determination by 22 May 2009, with a final report to be issued in mid July 2009.

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

"Households that consume 300 kL per annum, such as a family of five, would face increases of around \$255 over the four years, plus inflation."

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

Increases are required to:

- ▼ Improve water and drought security for the Hunter region through the construction of Tillegra Dam as directed by the Minister.
- ▼ Undertake an estimated \$100 million in sewerage system projects to comply with current Department of Environment and Climate Change (DECC) standards, including the upgrade of Burwood Beach waste water treatment plant, the Newcastle wastewater transport system upgrade (Stages 1 & 2), the Morpeth wastewater transport system upgrade (Stage 2), and the Windale/Gateshead system upgrade (Stages 1 & 2).
- ▼ Provide augmented water services to cater for forecast population increases and demand, such as upgrades to the Tomaree/Tillgerry water supply and water treatment plant, and the Grahamstown water treatment plant.
- ▼ Maintain the financial sustainability of Hunter Water.

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

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

Dr Keating said that the remaining 60 per cent of the dam's costs provides benefits to future customers because it caters for expected population growth in the Hunter Valley, and as the population grows the value of that water will increase. Recovery of these costs should be through

future prices. This approach is equitable in that it matches prices with the benefits received by existing and future customers and at the same time ensures that Hunter Water will continue to be financially viable.

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

IPART’s draft decision means that the water and sewerage bills of a typical residential customer will include \$30 per annum in 2012/13 that is associated with Tillegra Dam.

Dr Keating said that this customer’s bill would have increased by an additional \$55 per annum in 2012/13 if IPART had not deferred a proportion of the Tillegra Dam costs for recovery in future periods.

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

IPART proposes to discontinue the residential sewerage usage charge. At present, the sewerage usage charge for residential households is based on their metered water use. The introduction of the Building and Sustainability Index (BASIX) for new homes and the increased use of recycled water and rainwater tanks means that customers’ metered water use is becoming a less reliable indicator of sewerage use. The existing system is becoming increasingly unfair and IPART has decided to replace the usage charge by an increased service charge.

For a typical residential household with a 20 mm meter:

- ▼ the water service charge will fall from \$41.46 in 2009 to \$28.78 in 2012/13 (plus inflation)
- ▼ the sewerage service charge will rise by 57 per cent to \$505.39 in 2012/13, (plus inflation), but residential customers will no longer be required to pay sewerage usage charges.

Where stormwater drainage services are provided by Hunter Water, the charge for residents will increase to \$74.41 in 2012/13, (plus inflation) or by 20.9 per cent.

Dr Keating said IPART has also recommended that the NSW Government should review the adequacy of current pensioner rebates. IPART has received a number of submissions highlighting inequities between the rebates paid to pensioners in the Sydney and Hunter regions.

Depending on feedback to the draft determination, IPART may hold a second hearing on May 15 at the Newcastle Town Hall.

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

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IPART'S DRAFT DECISIONS

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

	Current (2008/09)	2009/10	2010/11	2011/12	2012/13	Overall increase
Water						
Service charge pa	41.46	21.97	23.85	25.48	28.78	
Year on year increase		-47%	9%	7%	13%	-31%
Usage charge per kL	1.27	1.51	1.62	1.74	1.86	
Year on year increase		19%	7%	7%	7%	47%
Sewerage						
Service charge pa	321.17	430.59	455.40	479.81	505.39	
Year on year increase		34%	6%	5%	5%	57%
Usage per kL	0.47	0	0	0	0	
Year on year increase		-100%				-100%
Stormwater drainage						
Service pa	61.52	64.58	67.70	70.97	74.41	
Year on year increase		5%	5%	5%	5%	20.9%

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

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

	Current (2008/09)	2009/10	2010/11	2011/12	2012/13	Change 2008/09 to 2012/13
100 kL pa	568	636	673	711	752	184
% increase		12%	6%	6%	6%	32% (7% pa)
200 kL pa	718	787	835	885	938	220
% increase		9%	6%	6%	6%	31% (7% pa)
300 kL pa	869	938	997	1059	1124	255
% increase		8%	6%	6%	6%	29% (7% pa)
750 kL pa	1546	1617	1726	1842	1961	415
% increase		5%	7%	7%	6%	27% (6% pa)

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

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

	IPART draft determination
Increased operating expenditure	\$29
Increased capital investment:	
Tillegra Dam ^a	\$30
Subsidy for Kooragang Island Recycled Water Scheme ^a	\$0
Sewerage projects required to meet DECC standards	\$24
Sewerage transport and treatment plant upgrades	\$49
Water supply system development and upgrades	\$18
Other system augmentation, and water resource capital expenditure	\$26
	\$147
Higher rate of return on capital (WACC of 7 per cent compared to 6.5 per cent in 2005 determination)	\$31
Removal of developer charges, (all costs recovered through customer prices)	\$13
Total	\$220

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

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