IPART Review of prices for Hunter Water Corporation
From 1 July 2020

General

The Lower Hunter Water Plan was developed in 2014 after community consultation. During this consultation the Hunter community requested a more diverse portfolio of options for water supply, such as storm water harvesting, recycling and demand management. The Lower Hunter Water Plan is now again under review, however, Hunter Water have not seriously adapted the recommendations in the last Plan.

Storm Water Harvesting

HWC has only spent/will spend $2.3-$4.7m to 2020 on stormwater harvesting. This is despite the LHWP community consultation demonstrating a wish for HWC to spend more on stormwater harvesting and it being articulated as a preference in future water strategies to assist with drought security.

Rainwater tanks need greater incentives for the general public to adapt to there use. Subsidised water and power usage, reductions in billing such as user pay system. Education on use of and tanks, pumps, etc. and efficiency monitoring by HWC.

Hunter Water needs to investigate more innovative projects that capture and re-use water to reduce wastage.

Water Pricing

P7. Table 1.4 Some users receive a discount for usage exceeding 50,000 KL per year "(IPART doc)

- I Disagree with rewarding higher users. Why is discounting occurring when HWC's customers are currently using 10% over the National average. Discounting should only occur where customers use significantly less water.

- I am strongly opposed to the maintenance of Hunter Water's 'location based' prices that provide discounts for certain high volume. I note that 19 users in this category have been removed from the discounting advantage. Are there any more industrial users/other users in this category receiving this discount, as these discounts provide a disincentive for industrial customers to invest in more water efficient production process or convert to recycled water. And why aren't all industries forced to convert to recycled water? Potable water should not be used by industry.

'Hunter Water charges its customers a fixed service charge and a usage charge for drinking water. It also provides some customers with unfiltered water'.(IPART doc)

- Current high levels of fixed charges provide a disincentive for customers to reduce water use or invest in water efficient appliances. User pay should be reinstated to add incentives to reduce water.

- Reducing the level of fixed charges and placing a greater reliance on volumetric charges would assist in reducing demand for water.
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- The purchase of all water, sewage and drainage should be charged to households at a cost per kilolitre basis with no fixed charges. This will support the drought strategy as it is an incentive to reduce waste

- 100% user pay is a great incentive to establish viable methods and strategies based on the unit price of a product

- 100% user pays rewards consumers for adopting efficiency in use.

- 100% user pays allows users to transfer funds saved into more efficient products.

- 100% user pays greatly simplifies billing, reduces billing costs, can be done remotely and allows very flexible meter reading timing. It also allows pre-pay.

- 100% user pays will greatly reduce water bills for those prepared to reduce their waste volumes.

Note: *Customer Contracts* – HWC's 'bill' includes: water, sewage, drainage and environmental improvement as a fixed charge, water usage based on a meter, and other fee for service. The 'bill' also provides pensioner rebates – but not to tenants who are pensioners. Only Customer Contract holders can get a pensioner rebate. Under some circumstances Landlords can pass on the water use component of the bill to the tenant. Social Housing, industrial and commercial tenants have rules and regulations that differ from private residential tenants. The Customer Contract details are set out in HWC's Operating Licence. The Customer Contracts used by HWC are discriminatory and not a fair and reasonable form of commercial transaction between a supplier and a consumer. It is important that HWC take steps to modify the Customer Contract to enable tenants to have them.

Recycling

Hunter Water expects total water demand to increase by around 400 ML (or 0.7%) per year over the 2020 determination period, with residential demand to increase by 0.4% per year, non-residential demand to increase by 0.6% per year, and bulk water sales to increase by 6.0% per year (see Table 6.3).130 Bulk water sales as a percentage of total sales is expected to increase from 3.1% in 2019-20 to 4.0% in 2024-25 due to forecast growth of private operators in the region, resulting in a diversion of some water sales from residential to bulk water (IPART doc)

- The general public requested a move to more recycled water in the last Lower Hunter Water Plan. No industry should be using potable water. Non-residential users will be consuming .6% more water over the 2020 determination. Industry should be encouraged to use recycled water through incentivisation. Industries should be charged accordingly to promote switching to recycled water._

- The government's 2019 *Greater Hunter Regional Water Strategy,* designed to manage the region's water for the next 30 years, focuses on connecting water supply infrastructure across the region, so that water can be transferred to critical locations in times of need. It also highlights the importance of water reuse schemes and recommends that Hunter Water *'further investigate opportunities for a major recycling*

project consistent with the LHWP.' Presently recycling only accounts for about 7% of Hunter Water's supply — which is only about half of the national average. Large recycling projects should be stepped up by HWC and recycling should be incentivised to promote a shift to recycling, which was the number one priority for infrastructure in both Lower Hunter Water community consultation.

- IPART puts prices on water that don't sufficiently encourage recycled water. It still costs to treat the water to make it reusable, but because you can't drink it, it's cheaper than rainwater. HWC would lose more money to make recycled water than to sell it. Desalination water is expensive to produce, but it's heavily subsidised. Why isn't recycled water subsidised? It can't be a loss maker to water utilities.

- HWC is dragging the chain with recycled water and best practice in water strategies. HWC needs to look to overseas practices as well as what is happening in other Australian states like QLD and Perth. As this was articulated as the most important infrastructure strategy for drought security by the Hunter community, HWC needs to be encouraged to invest more heavily in this area and give it due incentivisation. Perth has two desalination plants that run at full capacity, and since last year has been pumping recycled sewage back into the city's groundwater. Unlike other Australian capitals, Perth draws most of its drinking water supplies from groundwater.

- BASIX ensures homes are designed to use less potable water and be responsible for fewer greenhouse gas emissions by setting energy and water reduction targets for house and units. Reuse water under the BASIX program has many inefficiencies, including poor water pressure and faulty pumps in washing machines. Making this system more efficient should be priced and integrated into HWC's planning.

- I, like the Hunter community, strongly supports increased recycling as a sustainable alternative to augmentations such as new dams and desalination. A further advantage of increased recycling is the concomitant decrease in quantities of effluent discharged to receiving environments. There is little analysis of the costs and benefits of recycling by HWC (including reduced sewage effluent discharges) or the quantities of water that could be saved.

P11 Hunter Water is proposing that $11.5 million be funded from the broader customer base (through water, wastewater and stormwater prices) to fund recycled water schemes that would irrigate parks and public open space, on the basis that its customers are willing to pay. Hunter Water calculates these proposed schemes would increase typical residential bills by around $2.00 per year, depending on what services a customer receives

- As stated already, recycled water should be incentivised rather than based on *'willingness to pay'.* The community has articulated that it wants recycled water, HWC now needs to find a way to implement it without undue cost to the ratepayer. It is irresponsible of HWC to allow end users to use potable water to suppress dust, for cleaning, in parks and gardens.

Hunter Water has identified several parks and sporting fields in Newcastle and Lake Macquarie that could use recycled water for irrigation. This would save drinking water supplies and reduce the amount of effluent discharged to waterways. Our recently released recycled water report allows the broader customer base to fund recycled water schemes to the extent there is sufficient evidence of customer willingness to pay for the scheme's specific external benefits. Hunter Water's survey found that most respondents were willing to pay more for it to increase the amount of wastewater turned into recycled water for

irrigation of parks and sporting grounds. Most households surveyed indicated they were comfortable with Hunter Water determining where the additional investments should occur. (IPART doc)

- I question the methodology of a survey as robust data collection to determine willingness to pay for recycled water. As stated incentivisation rather than surveys would lead to better outcomes.

P7. bills will increase between 17% and 44% (in nominal terms) across a range of typical customers (IPART doc)

- The whole billing system needs review, as already described.

Leakage

P9. Hunter Water has identified a need for increased expenditure after reviewing risks and comparing performance to other utilities and seeks to improve compliance with its legislative requirements. Hunter Water also notes that it is spending significantly to reduce water losses from the system as it is the worst performer in terms of leakage per connection out of 15 comparable water utilities across Australia. (IPART doc)

- Agree. Perhaps the amount saved would support the drought strategy. I would like to know how much water would be saved with this efficiency method and what the cost to ratepayers will be. This should have been an ongoing maintenance program and why has this been allowed to occur to such an extent?

The Lower Hunter Water Plan p27

This is the Government's medium-term plan to ensure the Lower Hunter region's water needs are effectively met. It applies to Hunter Water and the Central Coast Council, and sets out a mix of supply and demand measures to: provide water security during drought, ensure reliable water supplies to meet growing water demand due to a growing population and increased business and industry activity, help protect aquatic ecosystems, maximise net benefits to the community. In particular, the plan includes network augmentation options and triggers for action. It considers normal conditions as well as drought conditions in the Lower Hunter region and is designed to be flexible enough to respond to different conditions. The current plan (from 2014) is under review, with a revised version due for NSW Government consideration in 2021.(IPART doc)

- HWC appears to have not included costs of the LHWP to date. Costs should reflect priorities from the Hunter community, otherwise there is no point in having community consultation.
- There have been no costs included on the portable desal plant to date and projected costs, as well as how this will be funded.

Overall Expenditure and Capital Expenditure

Overall, Hunter Water's forecast total operating expenditure and capital expenditure over the 2016 determination period is higher than the levels we used to set prices in 2016. Over the four years of the 2016 determination period, Hunter Water forecasts that its total operating expenditure will be $596.1 million, or $23.7 million (4.1%) higher than we used to set prices in 2016. It forecasts that its total capital expenditure will be $508.7 million, or $111.3 million (28.0%) higher than we used to set prices.

Hunter Water proposes further increases over the five years from 1 July 2020, which are on average 9.4% and 75.4% higher for operating expenditure and capital expenditure, respectively, than the average annual expenditure allowances we used to set prices in the 2016 Determination (Figure 3.1). In its pricing proposal, Hunter Water indicates that a review of its risks is a key driver of the expenditure increases in operating expenditure and capital expenditure, both for the 2016 and 2020 determination periods. To meet expected growth. Large capital expenditure programs, in particular to improve wastewater systems, are planned. Hunter Water has also introduced a mechanism whereby it enters into agreements with developers to repay them for appropriate infrastructure costs that they incur. (IPART doc)

- IPART asks: P43, '*How much emphasis should be put on benchmarking with other utilities in terms of performance standards and hence required capital expenditure*?' This measure is the only way the lay person has to determine generally how HWC is progressing with current research around water strategies, plus other issues. For example, graphs at a HWC CCAG Meeting clearly showed the poor record HWC had with leakages and CCAG members were able to bring this forward as a talking point. Also, the poor record of water usage against National benchmarks.

- IPART asks: P42 *Is Hunter Water's proposed capital expenditure efficient?* Only if it is directed to improving inefficiencies and meeting the articulated wishes of the Hunter community through its consultation processes

- IPART asks: P73, *Do you agree with Hunter Water's forecast that per capita water consumption will decrease by 2.8% over the next 5 years under long-term average weather conditions?* If the appropriate strategies are implemented, there is no reason that this could not occur, however there seems to be little improvement with the *Love Water* campaign. At one point, Sydney grew by around 1.2m in population, but, because of water conservation strategies, water consumption decreased.

- IPART asks: P115, *What other efficiency incentive mechanisms should we consider?* These have been previously discussed and pivot around recycling. BASIX is another area. Water Wise rules should be introduced in the Lower Hunter as a low cost, effective strategy for reducing water demand. Included in efficiency measures should be a requirement for industries to develop water efficiency plans.

- IPART asks:P125 53, *Is there sufficient customer willingness to pay for Hunter Water's proposed new recycled water projects?* The Hunter community have articulated their willingness to accept recycled water in the 2014 Lower Hunter Water Plan and at consultations now being undertaken on its review. Their understanding that recycled water is the way forward and extra costs maybe incurred is refect in the Lower Hunter Water Plan. Incentivisation should be implemented to encourage the use of recycled water.