

REVIEW OF PRICES FOR HUNTER WATER CORPORATION FROM 1 JULY 2020



Overview water reviews

September 2019

Overview



The Independent Pricing and Regulatory Tribunal of NSW (IPART or 'we') has begun a review to determine the **maximum prices Hunter Water Corporation** (Hunter Water) can charge for the water, wastewater and stormwater services it provides to residential and non-residential customers. As part of this review, we will also:

- Determine maximum prices for its trade waste services and miscellaneous services
- Review Hunter Water's recycled water prices for its 'mandatory' schemes, in line with our 2019 Final Report on our approach to regulating the public water utilities' recycled water prices.¹

We will make a determination

We will make a determination on these prices for a period of up to five years, starting from 1 July 2020 (the 2020 determination period).

All dollar figures quoted in this document are in \$2019-20, unless stated otherwise.

Process for conducting the review

We received Hunter Water's pricing proposal on 1 July 2019. It is available on our website.²

This Overview presents the process we will follow to conduct the review, the approach we will use to make our pricing decisions, and the key issues we will consider in making these decisions. It also sets out our preliminary views on some of these issues. We invite all interested parties to visit our website, www.ipart.nsw.gov.au, and to provide feedback and make submissions to this review. Submissions to this stage of the review close on 21 October 2019. See page 16 for more information on how to have your say.



We will hold a public hearing in Newcastle on 19 November 2019, to provide stakeholders with another opportunity to share their views on Hunter Water's pricing proposal and the key issues for this review.

We will consider all comments made through customer feedback and submissions and at the public hearing before making our decisions. We will then release a Draft Report and Draft Determination in March 2020, and invite further comments from stakeholders and Hunter Water. We will consider all these comments before making our Final Determination and publishing our Final Report in June 2020, for new prices to apply from 1 July 2020.

IPART.NSW.GOV.AU

¹IPART, Review of pricing arrangements for recycled water and related services Final Report, July 2019. ²https://www.ipart.nsw.gov.au/Home/Industries/Water/Reviews/Metro-Pricing/Prices-for-Hunter-Water-Corporation-from-1-July-2020 Prices for Hunter Water from 1 July 2020



Hunter Water's pricing proposal for water, wastewater and stormwater services

Length of determination period and expenditure

Hunter Water has proposed a 5-year determination period (from 2020-21 to 2024-25). This is one year longer than the 2016 Determination.

Revenue requirement

Hunter Water proposed a revenue requirement of \$376 million per year over the 5-year period. This is \$55 million, or 17%, per year higher than the revenue allowed in the 2016 Determination.

Hunter Water has also estimated that by the end of June 2020, it will have spent significantly more than the expenditure we used to estimate prices for the 2016 Determination. It forecasts a 4% overspend in operating expenditure, and 28% higher capital expenditure than that allowed.

Hunter Water has proposed an increase in expenditure over the 2020 determination period, compared to what we used to set prices in the 2016 determination period. The proposed increase in expenditure over the 2020 determination period includes:

A 9% increase in average annual operating expenditure compared to that used to set prices in our 2016 Determination.





A 75% increase in capital expenditure compared to that used to set prices in our 2016 Determination.

Hunter Water's revenue that we used in the 2016 Determination and that proposed for the next 5 years, is shown in Figure 2.



Figure 2 Hunter Water's allowed revenue in the 2016 Determination and proposed revenue for the 2020 determination period (\$2019-20)

Data source: Hunter Water proposal, Technical paper 6, 1 July 2019, pp 4, 8

The proposed revenue Hunter Water has said it needs to recover its efficient costs (or its 'notional revenue requirement') results in increases in customer bills above the level of inflation.

Capital expenditure

Hunter Water proposes a significant increase in its average level of capital expenditure over the next five years (Table 1). Hunter Water states this expenditure level is similar to expenditure levels prior to 2011.³

Annual average (\$ million)		erage on)	Difference b determination	etween n periods	Proportion of total expenditure	
Area of expenditure	2016 period	2020 period	(\$million)	(%)	2016 period	2020 period
Water	49.7	54.7	5.0	10%	39%	31%
Wastewater	57.2	84.9	27.8	49%	45%	49%
Stormwater (excl. discretionary)ª	2.3	4.7	2.3	98%	2%	3%
Corporate (excl. discretionary) ^b	17.4	25.4	8.0	46%	14%	15%
Discretionary	0.6	4.6	4.0	666%	0.5%	3%
Total	127.2	174.3	47.1	37%		

Table 1 Annual average capital expenditure by service for determination periods (\$million, \$2019-20)

^a For the 2016 Determination period, Hunter Water's discretionary expenditure was included in the stormwater expenditure. We have separated this out.

^b For the 2020 Determination period, Hunter Water's discretionary expenditure is included in the corporate expenditure. We have separated this out.

Source: Hunter Water proposal, Technical Paper 4, July 2019, pp 15, 28, 65; Hunter Water AIR/SIR, SIRCapex 2, row 4417; IPART calculations.

³ Hunter Water proposal, Technical Paper 4, p 12. IPART.NSW.GOV.AU The proposed capital expenditure program will contribute to an increase in Hunter Water's Regulatory Asset Base (RAB) of \$0.5 billion over five years, to reach \$3.4 billion. We use the RAB to generate an appropriate return on capital, so this will have an ongoing effect on prices over the lifetime of these assets.

The effect on prices of the proposed increase in capital expenditure in the upcoming determination period has been offset by a reduction in interest rates – referred to as the Weighted Average Cost of Capital (WACC). Hunter Water proposed a WACC of 4.1% for the 2020 determination period (compared to 4.9% in the 2016 determination period). However, water assets have long lives and as such typically remain in the RAB for many decades. If all of Hunter Water's proposed capital expenditure is added to the RAB, this would result in upward pressure on customer bills if interest rates rise.

Operating expenditure

By June 2020, Hunter Water expects its operating expenditure to exceed the amount used to set prices in our 2016 Determination by \$23.7 million, or 4%. This is a result of spending exceeding allowances for wastewater and corporate services in particular.

Hunter Water's proposed annual average operating expenditure over the 2020 determination period is \$156.6 million per year, which is 5% more than its average annual operating expenditure over the 2016 determination period, and 9% more than the annual average operating expenditure we used to set prices over the 2016 determination period.

Depreciation and discretionary expenditure

Hunter Water has proposed an increase in depreciation costs of \$36 million per annum, or 91%, compared to our 2016 Determination. This is due mainly to a proposed disaggregation of its RAB into sub-categories, and reduced asset lives.

The proposal also includes \$25.1 million in discretionary expenditure, which Hunter Water indicates is supported by customer willingness to pay surveys. This is to fund stormwater channel beautification (\$11.3 million in the 2020 determination period and \$2.3 million in the 2016 determination period), and the provision of recycled water for irrigation of public spaces (\$11.5 million in the 2020 determination period).

Proposed prices and bill impacts

Hunter Water provides three core monopoly services, which it uses as the basis for charging:



As a result of Hunter Water's proposed expenditure plans, its prices for water, wastewater and stormwater services over the next 5 years would increase in real terms.

Residential

Hunter Water's proposed prices for water, wastewater and stormwater services for residential customers are provided in Table 2.

Table 2 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	2020-21	2021-22	2022-23	2023-24	2024-25	Change 2020- 2025
Water							
Usage (\$/kL)	2.39	2.41	2.44	2.46	2.49	2.51	5%
Service – houses & apartments	100.88	100.42	98.53	98.81	97.00	97.24	-4%
Wastewater							
Service - houses ^a	651.98	675.59	699.78	724.88	750.59	777.22	19%
Service - apartments ^a	537.89	574.25	612.31	652.40	694.29	738.35	37%
Stormwater							
Houses	80.01	84.63	89.56	94.77	100.29	106.14	33%
Apartments	29.61	31.32	33.14	35.07	37.12	39.28	33%

^a This is calculated by multiplying the meter connection charge (eg \$762.11 for houses and \$628.74 for apartments for 2019-20) by a discharge factor of 75% and adding a deemed usage allowance (eg \$80.40 for houses and \$66.33 for apartments for 2019-20).

Source: Hunter Water proposal, 1 July 2019, pp 38, 42, 45, 49 and IPART calculations.

As a result of Hunter Water's proposed expenditure plans, its **prices** for water, wastewater and stormwater services **over the next 5 years would increase** in real terms.

IPART.NSW.GOV.A



Proposed prices for wastewater service charges increase by around \$25 a year for houses, and \$40 a year for apartments on average, in real terms (ie, excluding inflation). There is a proposed increase in the water usage price of 1% annually (from \$2.39/kL to \$2.51/kL in 2024-25). Stormwater prices are also increasing for houses and apartments by 33%, or around \$5 and \$2 per year respectively.

Over the 5 years of the 2020 determination period, the proposed prices for water, wastewater and stormwater result in:

- ▼ A 24% nominal and a 10% real increase for typical house bills⁴
- ▼ A 34% nominal and an 18% real increase for typical apartment bills.⁵

Under Hunter Water's proposal, bills for apartments would increase at a greater rate than bills for houses as there would be a continuation of transitional arrangements (at 2.5% per year) for aligning wastewater service charges for apartments with those of houses.

Hunter Water has an Environmental Improvement Charge (EIC) of around \$41.20 per customer in 2019-20. It has proposed to discontinue this charge from the beginning of the 2020 Determination.⁶

Table 3 Bill impacts for typical residential customers with stormwater services (\$nominal – ie, including inflation)

	2019-20	2024-25	А	nnual change	Chang determinat	e over tion period
House	1,316	1,635	64	4%	319	24%
Pensioner household	752	989	47	6%	237	31%
Apartment	984	1,316	66	6%	332	34%

^a We have estimated bill impacts for a Pensioner household including stormwater as data was not presented in Hunter Water's proposal.

Source: Hunter Water proposal, 1 July 2019, Technical Paper 8, p 46, and IPART calculations

Non-residential

Hunter Water has proposed non-residential prices and total percentage price changes for its major services for the next regulatory period as shown in Table 4.

⁴Hunter Water assumes water consumption of 185 kL per year for a typical household. The typical house also includes stormwater charges.

⁵Hunter Water assumes water consumption of 115 kL per year for a typical apartment. The typical apartment also includes stormwater charges.

⁶ The EIC was used to provide sewerage services to the Wyee 'backlog' area as well as an additional five projects in the Lower Hunter. Hunter Water observed our recent approach in the 2018 Developer Charges Determination, where the existing property owner is liable for Hunter Water's cost of building an extension of the wastewater network to the connecting property.

Table 4 Hunter Water's proposed charges for major non-residential services from 1 July 2020 (\$2019-20)

Charge description	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Change 2020- 2025
Water							
Usage - (\$/kL)ª	2.39	2.41	2.44	2.46	2.49	2.51	5%
Service - small customers (20mm meter stand-alone)	100.88	100.42	98.53	98.81	97.00	97.24	-4%
Service - other (25mm meter equivalent) ^b	157.63	156.90	153.95	154.38	151.57	151.94	-4%
Wastewater							
Usage non-residential (\$/kL)°	0.67	0.65	0.64	0.62	0.61	0.59	-12%
Service - small customers (20mm meter stand-alone) ^d	842.51	872.60	902.92	934.70	966.72	1,000.21	19%
Service - other (25mm metre equivalent) ^{b,f}	1,190.79	1,244.98	1,297.87	1,355.17	1,411.22	1,471.70	24%
Stormwater							
Small (<1,000m²) or low impact	80.01	84.63	89.56	94.77	100.29	106.14	33%
Medium (1,001 to 10,000m²)	261.31	276.39	292.49	309.53	327.56	346.64	33%
Large (10,001 to 45,000m²)	1,661.94	1,757.86	1,860.27	1,968.63	2,083.29	2,204.61	33%
Very large (>45,000m²)	5,280.39	5,585.15	5,910.52	6,254.80	6,619.11	7,004.60	33%

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

^b Charge for a 25mm meter equivalent- larger meters pay a multiple of this charge depending on the size of the meter.

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

^d This is calculated by multiplying the meter connection charge of \$762.11 by a discharge factor of 100% and adding the deemed usage allowance of \$80.40.

° Meter connection component has been multiplied by a discharge factor and scaled according to actual meter size.

^rCharges are for a 100% discharge factor. Actual prices would be lower as most customers have a discount factor of less than 100%. **Source:** Hunter Water proposal, 1 July 2019, pp 38, 42, 45, 49 and IPART calculations.

The impact on non-residential customers' bills depends on their meter size and discharge factors, as well as their water and wastewater usage. Hunter Water modelled the impact of its proposed prices on different types of non-residential customers, and found that bills would increase by between 17% and 44% (in nominal terms) across a range of typical customers.⁷

Proposed changes to the form of regulation and price structures

Hunter Water has proposed some changes in the way we regulate, and the way it levies prices.

Hunter Water proposed to phase-out its location based pricing for 19 customers with an annual water usage above 50,000 kL, which is based on estimates of cost differentials in seven different zones. This provided a discount to certain large water users, and its removal will therefore result in increased prices for those customers, but a reduction for all other customers.

⁷ Hunter Water report bills for 19 non-residential customer types. The largest increase is for 'Shopping Centre with high strength trade waste' and the smallest for 'Small nursery low discharge factor'. Hunter Water proposal, Technical Paper 8, pp 47-71.

In our 2016 Determination we included a demand volatility mechanism. Under this mechanism, if water sales were higher or lower than used to set prices, we would consider an adjustment in future periods. Hunter Water has reported that its water sales are currently 6.7% above the water sales forecast used to set prices, which would trigger the demand volatility adjustment mechanism.

Hunter Water has also indicated that it would submit details during the review process of any proposed drought response cost pass-through mechanism.

Recycling schemes

Hunter Water has 18 existing recycled water schemes, supplying about 3,500 ML of recycled water each year. It also proposed a new recycled water scheme to be funded by its broader customer base on the basis of its customers' willingness to pay, at a cost of \$11.5 million.

Hunter Water has also proposed prices for two 'higher-cost' 'mandatory' recycled water schemes, which will service around 1,170 residential customers. Hunter Water has not identified any material avoided or deferred costs associated with these schemes which it is seeking to recover from the broader customer base. Our approach for these mandatory schemes is to assess whether the proposed recycled water prices meet our recycled water pricing principles.



Our preliminary responses on key issues

Our preliminary responses on key issues arising from Hunter Water's pricing proposal are outlined below.

Hunter Water's proposed increases in capital and operating expenditure

Hunter Water has proposed a significant increase in expenditure compared to the 2016 determination period.

As outlined above, Hunter Water has proposed a 75% increase in capital expenditure from what we allowed in the 2016 determination period, as well as a 9% increase in operating expenditure.

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.

We have engaged expert consultants – Aither - to review and make recommendations on Hunter Water's historical capital expenditure, and its proposed operating and capital expenditure.

We will also examine whether Hunter Water's proposed expenditure reflects an adequate sharing of risk between the organisation and customers. We will review the role of performance standards benchmarking with other utilities as a driver of expenditure, as opposed to compliance with regulatory requirements or in accord with customer preferences and willingness to pay.

Depreciation

Hunter Water has proposed an increase in depreciation costs as a result of shorter asset lives and disaggregation of its regulatory asset base (RAB).⁸ The finer breakdown of its assets allows a more detailed specification of asset lives when calculating depreciation.

The effect of this is a significant reduction in the economic lives of both its existing assets and its proposed new assets. Shorter asset lives mean that assets depreciate faster, resulting in higher depreciation. Depreciation is proposed to increase from \$42 million in 2019-20, to \$89 million in 2024-25.9

⁸ We use the RAB to calculate how much revenue Hunter Water needs to cover the depreciation of its assets and how much it should earn for a return on its assets.

⁹ Hunter Water Pricing Proposal, July 2019, Technical Paper 6, p 8.

In principle, we support the disaggregation of the RAB and the more accurate application of asset lives in calculating regulatory depreciation. This allows the timing of revenue to better match the consumption and use of a utility's assets. In turn, this means prices are more cost-reflective and there is equity between generations of customers.

We will investigate the method that Hunter Water has used to disaggregate its RAB, to ensure that the existing and proposed assets have been allocated to the appropriate category, at the appropriate value.

We will also investigate Hunter Water's proposed asset lives. There has been a significant reduction in the weighted average life of Hunter Water's assets. This is a critical factor in putting upward pressure on its proposed revenue requirement and, in turn, prices.

Capital and operational expenditure are two factors that directly impact the revenue required to deliver services. Table 5 provides a summary of Hunter Water's proposals and our response on issues that affect its revenue requirement.

Торіс	Hunter Water's proposal	Preliminary position
Proposed expenditure and cost drivers	Increase in revenue requirement to reduce its risk profile. Major expenditure drivers include wastewater treatment, water management, in particular reduction of losses, and ICT improvements.	We will review this as part of our expenditure review including examining the appropriate level of risk to accept to meet standards.
Capital expenditure	A significant increase driven by assessment of risk. Water expenditure is increasing by 10%, and wastewater expenditure is increasing by 49% between determination periods.	We will review the efficiency of capital costs in our expenditure review.
Operating expenditure	Increasing by 9%. Drivers include external labour costs, treatment plant operations, and energy expenditure.	We will review the efficiency of operational costs in our expenditure review.
Regulatory depreciation	Revised method to disaggregate its RABs, and a significant reduction in the economic lives of its assets.	It is appropriate for Hunter Water to disaggregate the RAB. We will review the disaggregation of the RAB and the asset lives applied to the new RAB components.
Return on assets	Proposed WACC is 4.1%. Hunter Water supports using our standard methodology.	We will calculate the WACC using our standard methodology, applying updated market information.
Tax allowance	Tax liabilities double under the proposal. Hunter Water used our standard approach to calculate its tax allowance.	We will calculate tax liabilities after other expenditure and revenue decisions are made.
Return on working capital	Hunter Water used our standard approach. Proposes a move to a 3-month billing cycle.	We have no concerns with the proposed 3- month billing cycle.
Output measures	Updated targets in existing suite of output measures to help determine the delivery effectiveness of its capital program.	We will assess Hunter Water's proposed new output measures in our expenditure review.

Table 5 Our preliminary positions on proposals affecting revenue requirement

Hunter Water's proposed prices



Setting efficient water and wastewater usage prices

When setting prices, we balance our preference for prices to be cost-reflective against a range of other factors, including customer affordability and government funding commitments.

When setting water usage prices, we have generally favoured setting prices with reference to the long-run marginal cost (LRMC) of water supply. This is because LRMC signals the costs of supplying water to meet demand over the long-term, including the costs of any required future supply augmentation measures.

For wastewater usage charges, we have typically not set these prices with reference to LRMC. Rather, we have often set prices with reference to estimates of short-run variable costs. In large part, this has reflected data limitations. It also reflects that wastewater is managed over multiple catchments that are not connected, and setting a single usage price will not be perfectly cost-reflective for all customers. In contrast, water is provided across an interconnected network.

Nevertheless, we also see merit in setting wastewater usage prices with reference to LRMC, as this would signal the long-term capital costs that Hunter Water will need to incur to meet increased demand. Accurate estimates of the LRMC of wastewater supply, preferably by supply catchment, would inform Hunter Water's expenditure planning, the calculation of avoided costs associated with recycling schemes (and hence assessment of the viability of recycled water schemes), and the calculation of wholesale prices to wholesale customers. Through this review we propose working with Hunter Water to collect data to estimate the LRMC for wastewater services.

Recycled water schemes and customer willingness to pay

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.

We will assess this proposal against the funding arrangements outlined in our recent Final Report on our approach to regulating recycled water prices, and in particular assess whether there is sufficient evidence of customer willingness to pay.



Table 6 Our preliminary positions on proposals affecting prices

Торіс	Hunter Water's proposal	Preliminary position	
Water sales and customer numbers	Forecasting residential and non-residential demand to increase over the five years to 2024-25 by 0.4% and 0.6% per year respectively.	We will examine the key assumptions used to forecast water demand and customer connections.	
	It is also forecasting growth in residential and non-residential connections (1.2% and 0.8% per year respectively).		
Prices – Water services	Usage charge (residential and non- residential) - Real increase of around 1% per year over 5 years (excluding location based usage charges).	We will review estimates of LRMC using best available information to ensure the usage price is set at appropriate levels.	
	Service charge (residential and non- residential) - Maintain at relatively stable levels in real terms (with slight decline of 3.6% as a result of increase in usage price).		
Prices – Wastewater services	Usage charge (non-residential) - Maintain constant in nominal terms (at \$0.67 per kL), ie, slight decline in real terms for non- residential customers.	We will seek to gain better understanding of LRMC to assess if real decreases in wastewater usage charges are	
	Note: there is no explicit wastewater usage charge for residential customers.	appropriate.	
	Service charge (residential and non- residential) - Real increase of around 4% per year, due to higher expenditure.		
Prices – Stormwater services	Service charge (residential and non- residential) – Real increase of around 33% over 5-year period to recover proposed increased investment in stormwater assets.	Consultants will review capital expenditure on stormwater assets over the regulatory period.	
	Note: There are no usage charges for stormwater.		
Bulk water price to the Central Coast Council	Apply price set by IPART in 2019 review of Central Coast Council's water prices, may enter an unregulated price agreement with the council.	We have recently determined this price, concurrent with our determination of the Central Coast Council's water prices.	
	Assumed zero net transfers over regulatory period.		
Location based pricing	Remove the discount provided to 19 large customers in seven specific geographic locations, over the 5-year period.	Accept the proposal subject to consideration of customer impacts.	
Environmental Improvement Charge	Set to zero.	Accept the proposal.	
Trade waste charges	Significant restructure of charges resulting in substantial increases for some customers.	Review charges during our price review to ensure cost reflectivity.	
Miscellaneous charges	Significant changes including restructuring of some charges with others being discontinued. Two new charges to be introduced.	Review charges during our price review to ensure cost reflectivity.	
Unmetered customers	Update service and usage prices in line with all other customers - affects three properties.	There may be a better proxy to charge commercial unmetered customers than the average residential usage.	



Hunter Water's form of regulation and other proposals

Demand volatility

In the 2016 Determination, we decided that at the next price review we would consider "an adjustment to the revenue requirement and prices" to address any over or under recovery of revenue over the 2016 determination period due to a material variation between forecast and actual water sales. A material variation was defined as "more than 5% (+ or -) over the whole determination period".¹⁰ Hunter Water has indicated that its water sales will be higher than the 5% trigger level.

Based on actual sales to 2017-18 the materiality threshold for the demand volatility adjustment mechanism will be met over the 2016 determination period. Our preliminary view is to return to customers any water sales revenue above the 5% threshold collected over the first 3 years of the 2016 determination period net of any costs of delivery by reducing Hunter Water's revenue requirement over the 2020 determination period. In deciding whether to apply a demand volatility adjustment mechanism over the 2020 determination period, we propose to only use actual water sales data available for the 2016 determination period to assess volatility and calculate the impact on revenue.

Discretionary expenditure

Discretionary expenditure is expenditure to provide services or achieve outcomes that are not mandated or go beyond service standards stipulated in the utility's operating licence or other regulatory instruments/requirements.

In 2016, we noted that we could allow discretionary expenditure to be recovered via regulated prices, if there was clear evidence that it would be efficient for customers to pay to exceed mandated standards, and the proposal would best fit with the utility's responsibilities.¹¹ Our recent decisions on recycled water pricing also recognise the importance of customer willingness to pay.¹²

We propose assessing this discretionary expenditure against our principles, which include assessment of customer willingness to pay. To aid transparency and accountability we will consider a separate charge on customer bills to recover any costs attributable to discretionary expenditure. This would also provide flexibility over time if a discretionary expenditure provided specific benefits to a set of customers.

¹⁰ IPART, Review of prices for Hunter Water Corporation – Final Report, June 2016, pp 97-98.

¹¹ IPART, Review of prices for Sydney Water Corporation, Final Report, June 2016, p 37.

¹² IPART, Review of pricing arrangements for recycled water and related services, July 2019.

Торіс	Hunter Water's proposal	Preliminary position		
Length of Determination	5-year determination period	Accept, subject to review of outer year estimates.		
Demand volatility	Reported over-recovering revenue in the 2016 determination period. Suggests returning the revenue that	We will consider returning revenue after we assess costs associated with revenue from additional sales.		
	exceeded the 5% threshold.	We will include the demand volatility adjustment mechanism for the 2020 Determination based on revenue from water sales.		
Efficiency carryover mechanism	No proposal to make a claim under the current ECM.	Our preliminary position is to retain the existing opex ECM but not introduce a capex ECM at this review.		
Unregulated pricing agreements	Maintain existing ability to enter into unregulated pricing and service level arrangements with large customers.	No change to the current threshold of water usage at 7.3 ML or more per year.		
Discretionary spend	Proposed \$25.1 million in capital expenditure for discretionary projects.	Apply our framework, assess willingness to pay and efficiency and consider separate charge on bills.		
Drought cost pass- through mechanism	May propose a pass-through, and will confirm its intention in its response to our Issues Paper.	We will review any proposal using our cost pass-through principles.		
Recycled water	For 'mandatory schemes', set its recycled water usage charge at 90% of the proposed potable water usage	We intend to apply our July 2019 Recycled Water pricing arrangements to existing and proposed schemes.		
	charge and remove recycled water service charge. Proposed two new schemes.	For Hunter Water's proposed recycled water schemes we will assess information on customer willingness to pay.		

Table 7 Our preliminary positions on other proposals



We are interested in your views



We will **consider all feedback** when making our draft decisions.

We will **accept stakeholder** feedback on this stage of our review **until 21 October 2019**.

There are **two** ways to have your say:

1. Make a submission to our Issues Paper

Our **Issues Paper** contains more details and analysis on a range of topics, and includes a **full list of questions** for stakeholders.

You can make a submission until 21 October 2019, by following the links on our Hunter Water review page on our website – www.ipart.nsw.gov.au.

You can make a formal submission on our website or by post.



Postal address:

Review of prices for Hunter Water Corporation Independent Pricing and Regulatory Tribunal PO Box K35 Haymarket Post Shop, Sydney, NSW 1240

2. Provide feedback on our website

A few of the key issues that we would like feedback on are outlined below. You can provide your comments by 21 October 2019 in the boxes provided on our customer feedback section on the Hunter Water review page on our website.

On proposed prices:

- Residential prices:
 - Are Hunter Water's proposed prices for residential customers reasonable?
 - Does its proposed water usage price send appropriate signals to customers?

Non-residential prices:

- Are Hunter Water's proposed prices for non-residential customers reasonable?
- Are the proposed changes to trade waste prices reasonable?
- Are the proposed changes to location-based prices for large customers reasonable?

On proposed expenditure:

- → Are there any aspects of Hunter Water's proposed expenditure that we should review?
- → Is Hunter Water spending appropriate amounts on protecting the environment and ensuring secure, reliable and sustainable water supplies?

Other opportunities to have your say

Stakeholders will have further opportunities to provide feedback at our public hearing to be held in Newcastle (19 November 2019), or in response to our Draft Report (March 2020).