



Hunter Water's prices from 1 July 2020

Public hearing

Two parts to the day

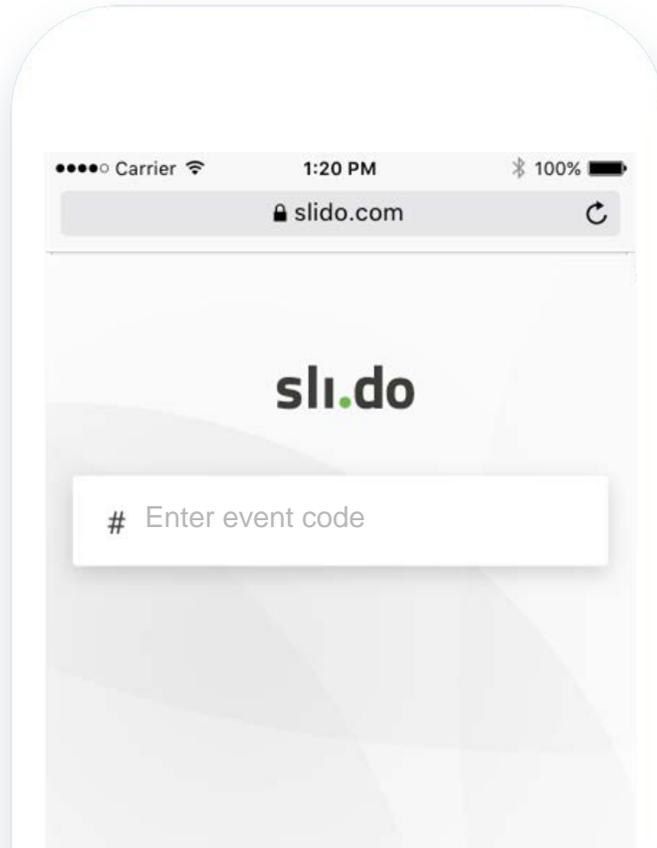
Structured hearing

- ▼ 4 sessions (see agenda)
- ▼ Present an overview of the issues
- ▼ Roundtable participants to provide comments or questions
- ▼ Open to the floor for comments or questions
 - Roving microphone
 - Slido: www.sli.do ; #H325
- ▼ Transcript will be available

Drop-in sessions

- ▼ After the hearing is closed, until 7pm
- ▼ IPART staff members will answer questions & take comments
- ▼ Comment forms available
- ▼ Feedback will be taken into account

We are using “Slido” to take questions



Go to slido.com and enter the event code:

#H325

Over 50 submissions to our Issues Paper

We will discuss the key topics raised in the first 3 sessions

Topic raised in submissions	Session
<ul style="list-style-type: none">• Hunter Water's efficient costs• The balance of usage charges versus fixed charges in your bill<ul style="list-style-type: none">• Setting usage prices in drought• Removing discounts for very large water users• Customer bills and affordability	Session 1
<ul style="list-style-type: none">• Hunter Water's services• Expenditure and efficiency	Session 2
<ul style="list-style-type: none">• Discretionary expenditure<ul style="list-style-type: none">• Recycled water• Other prices	Session 3
Open Session - Other topics and questions	Session 4



Prices

Changes to Hunter Water's proposal

1 July Proposal – key points

- ▼ Bill increases over 5 years
 - 24% for 'typical' house
 - 34% for 'typical' apartment
 - Differing increases for non-residential
- ▼ Higher costs than in the current price path
 - Infrastructure
 - Day-to-day operations
- ▼ Set prices for 5 years

Hunter Water has since revised its forecasts - Price rises would be less than July Proposal

- ▼ Bill increases over 5 years
 - 6% for 'typical' house
 - 11% for 'typical' apartment
 - Differing increases for non-residential
- ▼ Higher forecast demand
- ▼ Drought and restrictions
 - Risk of reduced revenue and increased costs
- ▼ Incorporating lower interest rates
- ▼ Set prices for 4 years

Deciding the revenue Hunter Water needs



Revised proposed – 2020-2025

Total \$348 m

(average proposed
for each year)

Other	\$13 m
Depreciation	\$76 m
Return on Assets	\$101 m
Operating Costs	\$158 m

Current – 2016-2020

Total \$321 m

\$9 m
\$40 m
\$130 m
\$143 m

Hunter Water's revised proposed prices

Hunter Water proposes modest increases in most charges over the next five years

Water charges

- ▼ Higher usage charge per kilolitre
- ▼ Lower fixed charge

Stormwater charges

- ▼ Higher charges, but off relatively low base

Wastewater charges

- ▼ Residential
 - Apartment prices increase more than houses
- ▼ Non-residential
 - Lower usage charge per kilolitre
 - Higher fixed charge

Setting water usage charges

Setting usage charges to reflect future costs sends the right signals to users

- ▼ During droughts, water is scarce
- ▼ Should we set higher water usage charges in drought?
 - May better reflect the cost of providing water
 - Results in lower fixed charges
 - This may not have much impact on consumption, as water restrictions reduce usage

Location based pricing

Some very large water users pay a lower water usage charge

- ▼ Hunter Water proposes phase-out of discounts for >50,000 kL/year usage
- ▼ Result - a single water usage price for all customers by end of 5 years
- ▼ Impacts
 - 0% to 27% increase over 5 years for large customers
 - \$2.3 million per year
 - - \$10/year for other customers
- ▼ We support the proposal, in principle

Background to the discounts

- ▼ Since 2001
- ▼ 19 industrial/commercial customers
- ▼ 7 different discount rates, based on customer location

Environmental Improvement Charge (EIC)

The EIC funded wastewater systems to communities that were previously unsewered

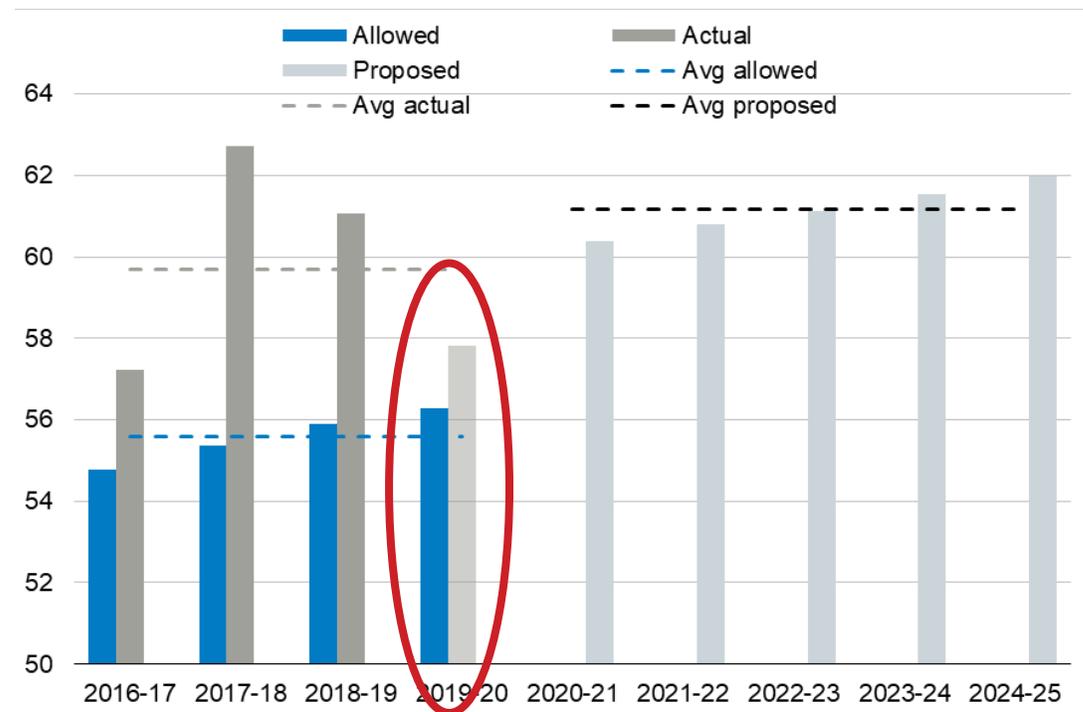
- ▼ EIC funds wastewater services to towns without reticulated wastewater
 - Scheme in place since 1980s
 - Last extended to June 2020 to fund backlog services to Wyee
- ▼ Hunter Water proposes removal of EIC from July 2020
 - Currently all sewerred properties pay \$41.20
 - Will be zero from 1 July 2020
- ▼ Our preliminary view is to support Hunter Water's proposal

Demand forecasts

Water usage is forecast to increase – but slower than population growth

- ▼ From 2016 to 2019 water sales were higher than forecast
 - low rainfall
 - higher population growth
- ▼ From 2020, forecast sales are 2% higher than recent actual sales
- ▼ The demand forecasts are based on average weather conditions
- ▼ Water consumption per residential customer is expected to fall

Water sales volumes, 2016-17 to 2024-25 ('000 ML)

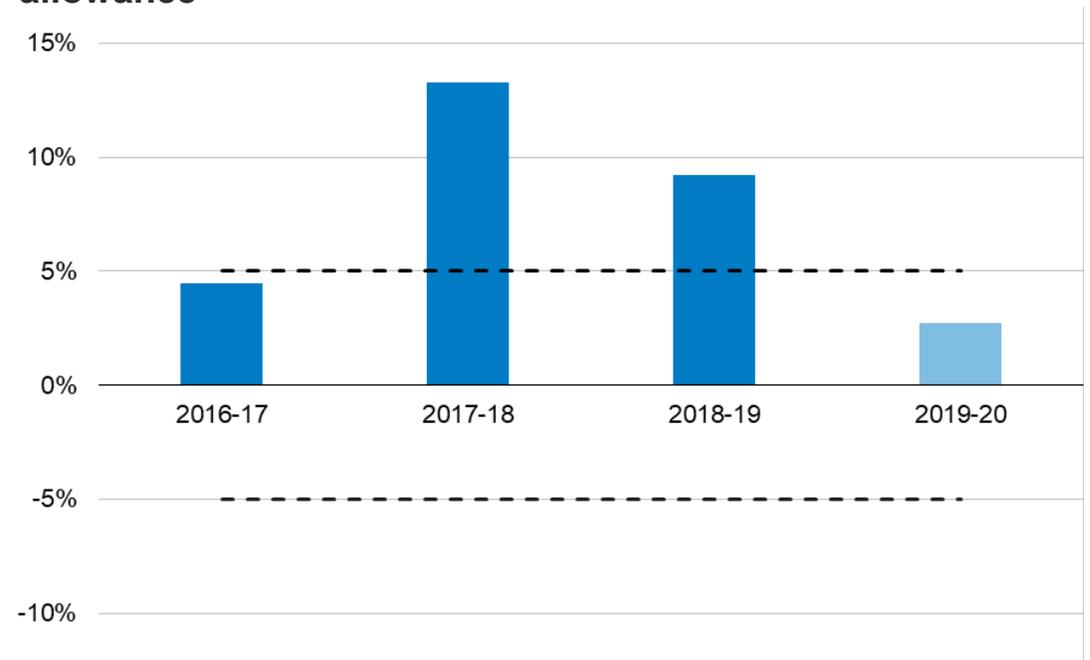


Demand volatility adjustment mechanism

Hunter Water sold more water than we forecast in 2016 – we may reduce prices to compensate

- ▼ We consider whether to adjust revenue when water sales are more than 5% out
- ▼ Hunter Water expects sales to exceed forecasts for the first 3 years of the 2016 determination period
- ▼ Level 1 water restrictions started in September 2019 – this will impact sales volumes in 2019-20

Variance of actual water sales volumes from IPART's 2016 allowance



Our questions



www.slido.com
Code: #H325

Q1

Do you have any comments on Hunter Water's proposed prices?

Q2

Should we consider higher water usage charges during droughts?

Q3

Should we remove the discounts for very large water users?

Q4

Should apartments pay the same water and wastewater service charge as houses?

Q5

Should we set prices for four or five years?



Service standards

Hunter Water's performance and forecasts

Service standards are the basis for expenditure levels

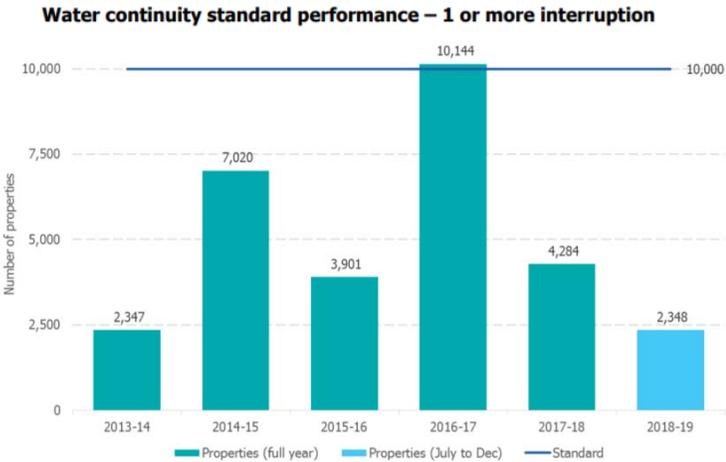
Drivers of service standards

- ▼ Hunter Water's operating licence
 - Australian Drinking Water Guidelines
 - Interruptions to water supply
 - Water pressure level requirements
 - Sewer blockages and overflows
 - Economic level of water conservation
- ▼ Environmental Protection Licences
- ▼ Account for customer preferences

Service standards and requirements

Hunter Water states increased expenditure is needed to reduce risk of non-compliance

▼ Hunter Water reports a reduced gap between performance and standards



Source: Hunter Water.

▼ Hunter Water reports deteriorating compliance with EPL requirements

Number of compliant wastewater treatment plants each year



Source: Hunter Water.

▼ Hunter Water forecasts risk of falling service levels without further investment



Expenditure

Expenditure

Two major expenditure components

Operating expenditure

Costs including:

- ▼ Labour
- ▼ Maintenance
- ▼ Operations contracts
- ▼ Electricity

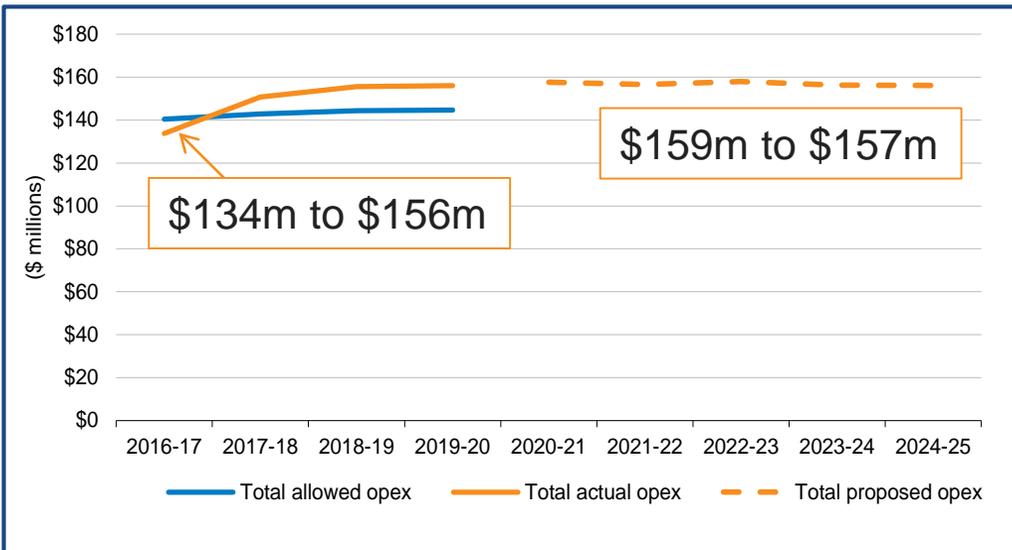
Capital expenditure

- ▼ Assets
 - Pipelines, treatment plants etc
- ▼ New, renewals, or upgrades

Proposed operating costs

Hunter Water proposes higher operating expenditure compared to 2016 Determination to improve services and maintain infrastructure.

Hunter Water's expenditure and IPART's 2016 allowance

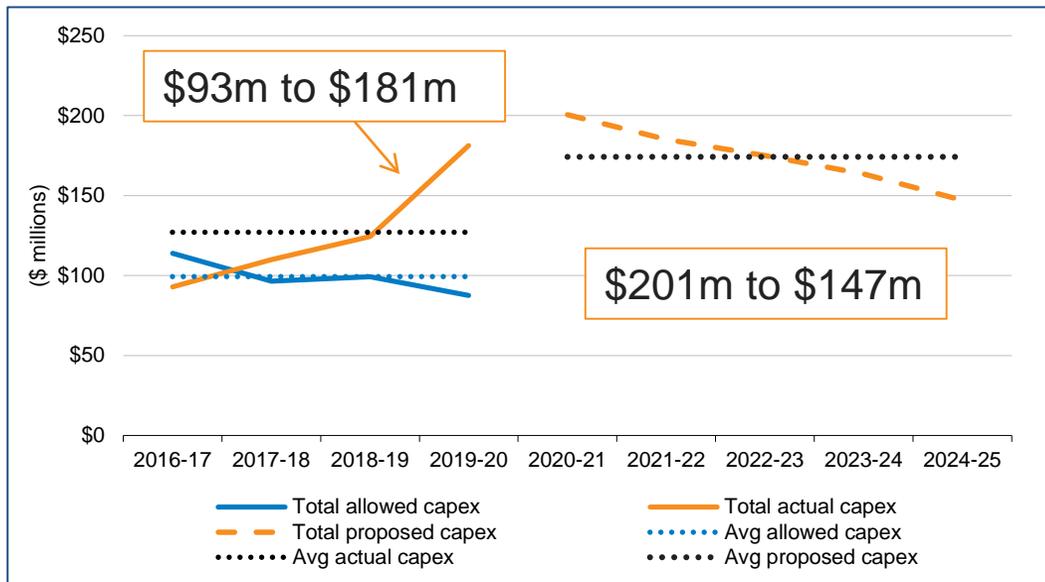


- ▼ Around 45% of total proposed costs
- ▼ In the current period, Hunter Water spent more than we used to set prices
 - Balance of higher expenditure in some areas and lower expenditure in other areas.
- ▼ Proposed expenditure is based on 2019-20 expenditure
 - Increases from corporate costs (eg ICT), changes to the capital program
 - Decreases in labour and maintenance

Capital expenditure – Infrastructure and assets

Hunter Water proposes increased capital expenditure compared to 2016 Determination

Hunter Water's expenditure and IPART's 2016 allowance



- ▼ In the current period, Hunter Water spent more than we used to set prices
 - Changes to project scopes and timing (eg, wastewater treatment plants)
 - More renewal of old infrastructure to reduce risk of supply interruptions (eg, Chichester Trunk Gravity Main)
- ▼ Proposed expenditure is higher than current
 - Major wastewater treatment plant upgrades
 - Growth
 - ICT investment

Expenditure

We assess expenditure for efficiency, and expenditure becomes the basis for prices

- ▼ We assess whether expenditure is:
 - The **right decision** based on available information at the time
 - The **right time** to invest
 - The **right price**
- ▼ Consultants with expertise in this area are reviewing the proposal including:
 - Performance and forecast performance
 - Risk appetites, including risk in planning
 - Business cases (options and cost estimates)
 - Contract management
 - Industry best practice

Our questions



www.slido.com
Code: #H325

Q1

Do you agree with Hunter Water's approach to improving performance? Do you have further questions or comments on Hunter Water's performance?

Q2

Has Hunter Water done enough to improve efficiency?

Q3

Do you have any comments or questions on Hunter Water's proposed capital expenditure?



Other issues

Discretionary spending, trade waste, miscellaneous charges and dishonoured fees

Discretionary expenditure

This is the first time we have a formal approach around discretionary spending

What is it?

- ▼ Expenditure to deliver services or outcomes **over and above** the utility's monopoly services
- ▼ This review is the first time we are developing an assessment framework

Hunter Water's proposal

- ▼ Naturalise stormwater channels (total cost \$11.3m)
 - Would add around \$2 to customer bills per year
- ▼ Irrigate public spaces with recycled water (total cost \$6m)
 - Would add around \$1 to customer bills per year

Discretionary expenditure

We prefer a transparent approach to track expenditure over time

What we allow under our frameworks

- ▼ Costs of *Discretionary expenditure* where customer willingness to pay has been demonstrated, in line with our best practice principles
- ▼ Costs of *'higher-cost' recycled water schemes* to be recovered from the broader customer base where willingness to pay has been demonstrated

Our approach

- ▼ We will also consider:
 - whether discretionary expenditure has been efficient
 - how it should be recovered from customers
- ▼ Our view is a single, separate charge on customer bills will ensure accountability and transparency over time

Trade waste charges

Pricing results in an increase in annual revenue from trade waste

Background

- ▼ Industrial and commercial customers with more highly contaminated waste
- ▼ 2,300 sewerred and 30 tankered customer
- ▼ < 1% Hunter Water's total revenue

Hunter Water's proposal

- ▼ Charges were reviewed to be more cost reflective
- ▼ Revenue would increase from \$2.3m to \$3.0m

Our approach

- ▼ We assess charges against pricing principles
 - Efficient costs of handling, including corporate overheads
 - Cost reflective, including by location
 - Transparent, accurate, reliable methods of measuring for charging

Bill impacts are varied

Impacts vary by size of customer

- ▼ Moderate and major customers
 - Major customers - significant increase – up to 890% in trade waste component of bill
 - Moderate customers - some increases, some decreases
 - Large industrial firms and shopping centres with high strength trade waste
- ▼ Minor customers
 - Marginal increase 3% - 4% in trade waste component of total bill
 - Service stations, medium licensed hotels, shopping centres with low strength trade waste

Miscellaneous ancillary charges

Changes aim to simplify pricing structure

- ▼ Typically one-off discreet service charges
 - Development fees (admin, eg, Conveyancing certificate charge decreases)
 - Customer service fees (individual properties eg, Damaged meter replacement fee may increase or decrease based on meter size)
- ▼ Around 55 charges (reduced to 45) - makes up 1% of revenue
- ▼ Hunter Water adjusted/amended 54 and introduced two new charges:
 - Application to connect/disconnect from the water system
 - Shut-down and charge-up for connection/disconnection

Declined and dishonored payment fees

Prices are proposed to reduce slightly

- ▼ Fees for:
 - Declined credit card payments
 - Declined direct debit payments
 - Returned cheques
- ▼ Hunter Water proposed a \$27.85 charge for all declined and dishonoured payments
 - \$2.30 reduction from the 2019-20 charge of \$30.15

Our questions



www.slido.com
Code: #H325

Q1

What should we consider in assessing whether discretionary expenditure should be recovered from Hunter Water's customers ?

Q2

Should the costs of discretionary expenditure be recovered through a separate charge on customer bills?

Q3

Do the changes to the trade waste charges meet the pricing principles and are they reasonable?

Q4

Are any changes to miscellaneous charges unreasonable?

Q5

Is the proposed \$27.85 charge for declined and dishonoured payments at an appropriate level?