Hunter Water Price Submission

IPART Public Hearing
Newcastle

Tuesday 13 November 2012

Presentation outline

- Strategic context
- Price setting challenges and influences
- Community consultation for the submission
- Price proposals
- Bill impacts on customers
- Matters from public submissions
- New issues

Today's presentation

- **Strategic context**
- Price setting challenges and influences
- Community consultation for the submission
- Price proposals
- Bill impacts on customers
- Matters from public submissions
- New issues

Hunter Water vision

To be a truly sustainable water business by focusing on:

Implementing the vision – strategic drivers

- **Water sustainability**
  - Ability to supply water may be threatened by severe multi year drought
- **Affordability and cost structure**
  - Capital & operating costs put pressure on prices. Need to operate efficiently
- **Capital structure**
  - Investment grade rating may be lost if financial indicators deteriorate

Implementing the vision – strategic drivers

- **Community trust**
  - Rebuilding community trust after Tillegra debate
- **Safety**
  - Further effort to better manage workplace & community safety
- **Continuous improvement**
  - Improve results by developing a continuous improvement culture

Implementing the vision – strategic drivers

- **Information technology**
  – Significant IT upgrades needed to manage identified risks

- **Culture**
  – Developing & sustaining a customer-driven commercial culture to improve performance

- **Focus**
  – Efficiency through focusing on community expectations & environmental & regulatory requirements

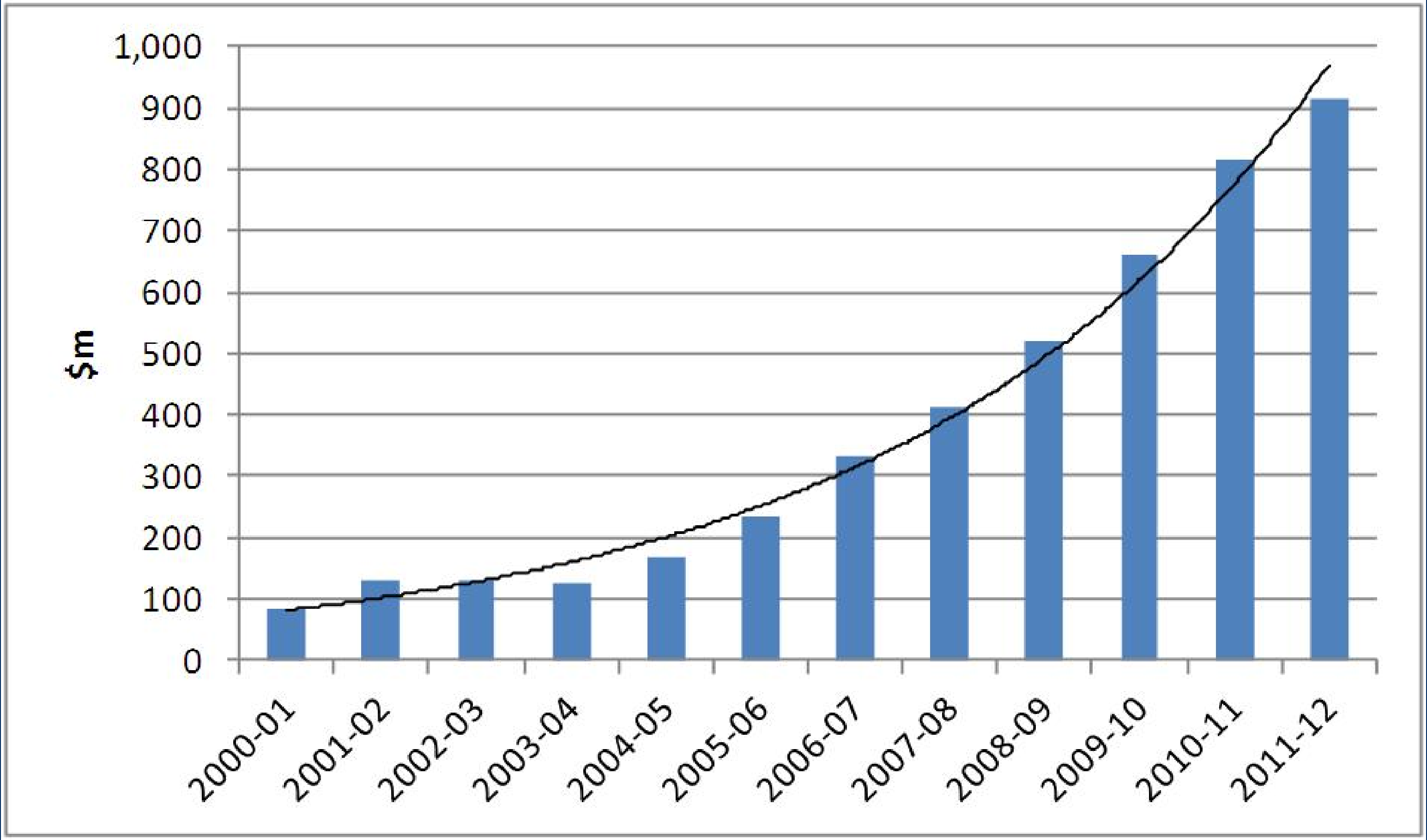
Presentation outline

- Strategic context
- **Price setting challenges and influences**
- Community consultation for the submission
- Price proposals
- Bill impacts on customers
- Matters from public submissions
- New issues

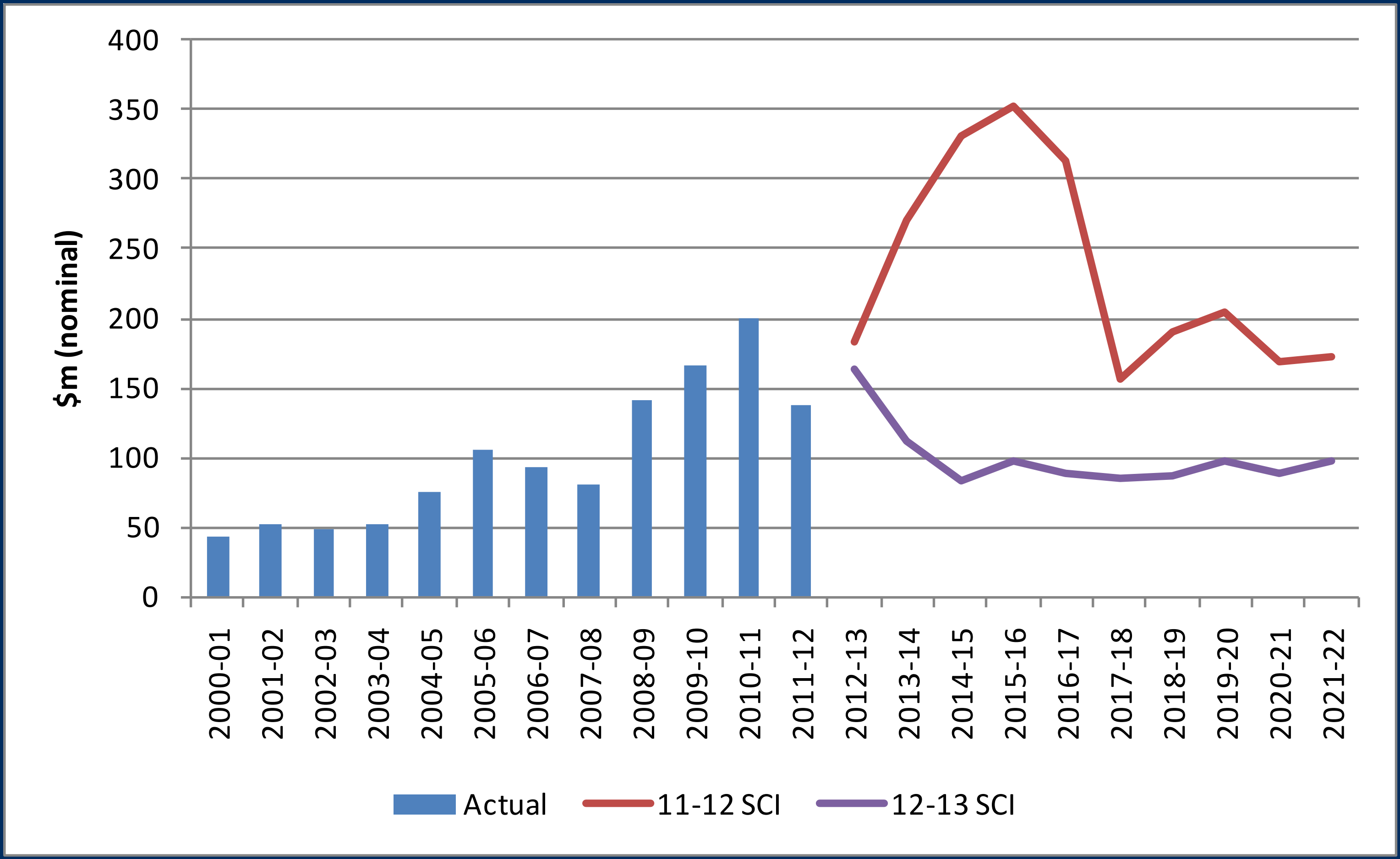
Price setting challenges

- The strategic drivers are the context for our prices
  - Customer affordability
  - Ensure the ongoing financial position of organisation
  - Comply with service standards & other regulatory requirements
  - Ensure prudent & efficient operating and capital investment

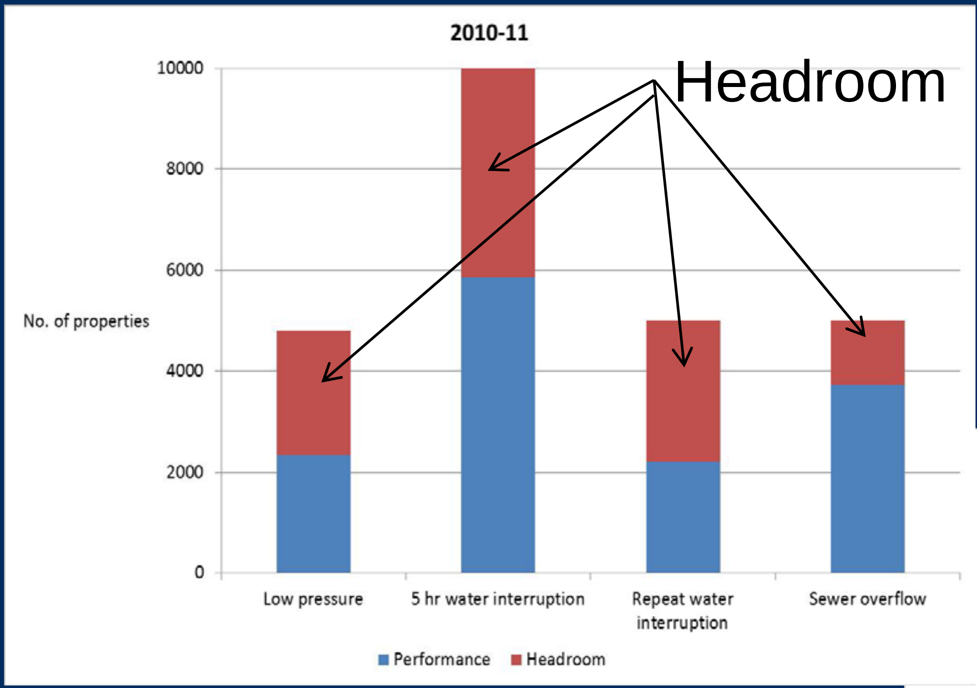
Debt levels have been increasing



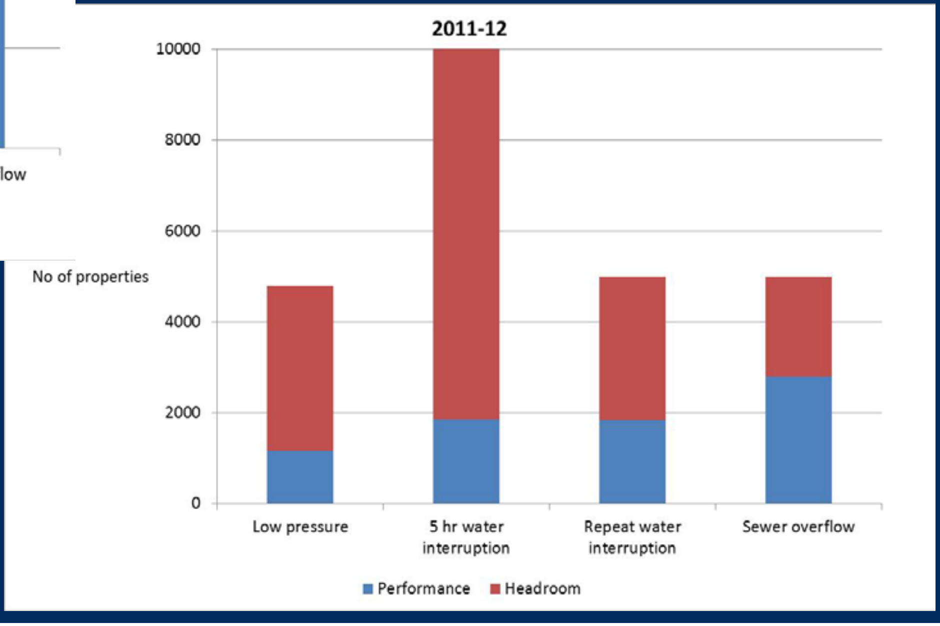
Financially responsible capital investment



Operating licence performance



Tighter capital spend may reduce licence headroom



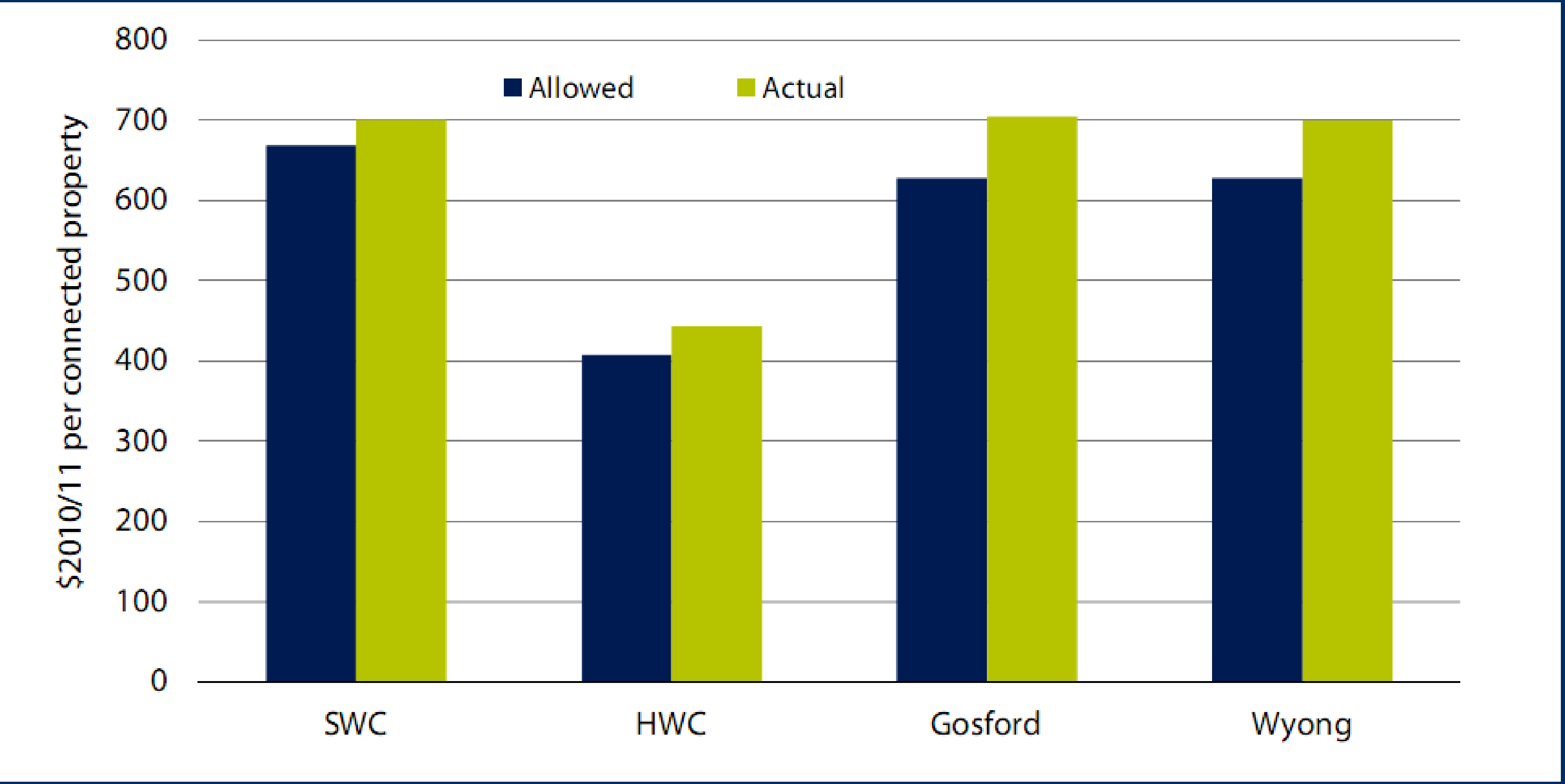
Other factors influencing price proposals

- IPART decisions and requirements
  - Previous determinations
  - Inclusion of tax as cost building block from 2013
  - New price structure requirements
  - 2012 decisions on Sydney Water’s prices
  - Issues paper for this review

- Our 2012 pricing consultation with the community & key stakeholders

Operating costs

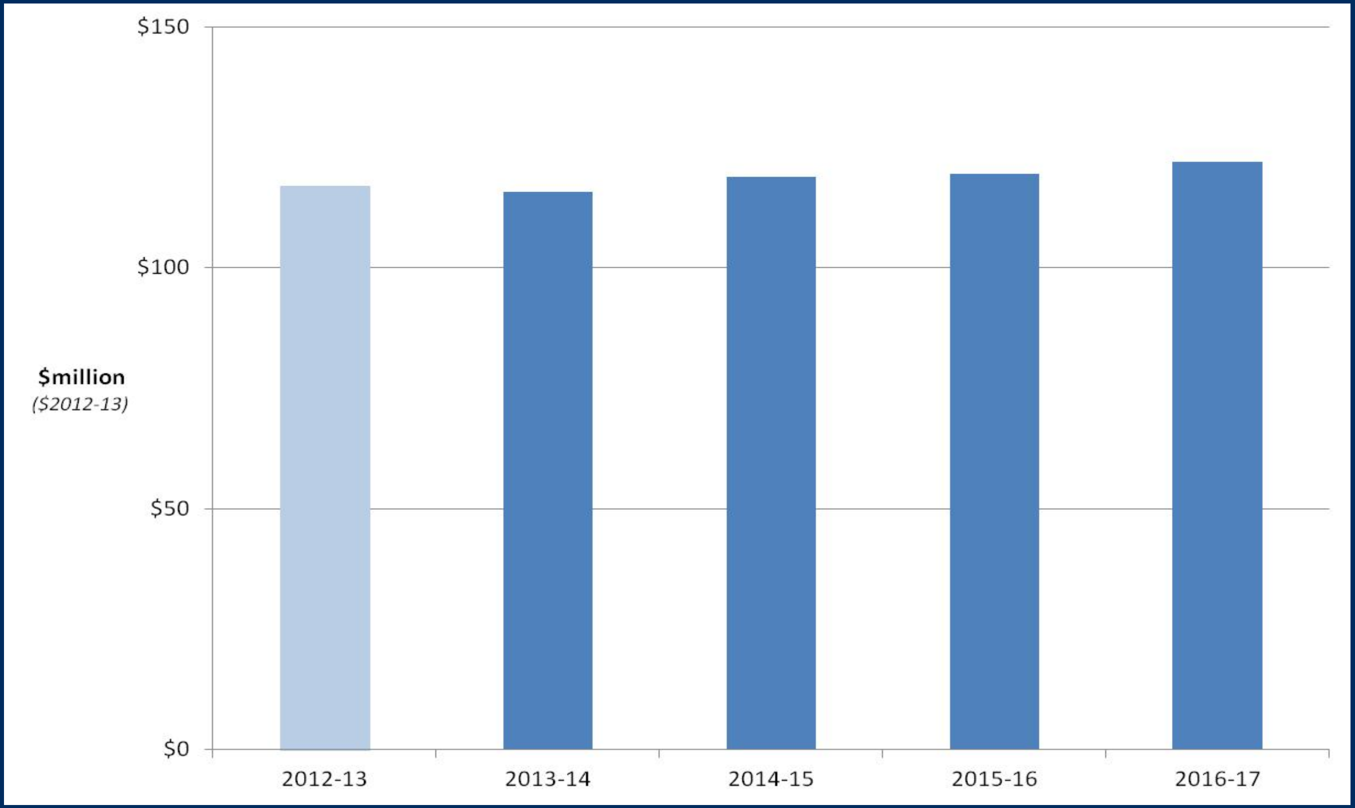
Metro utilities average operating cost per property ($2010-11)



Source: IPART 2012

Financially responsible - operating costs

- Modest real increase in regulated opex of 1.1% per year
  - maintains Hunter Water as low cost utility



Presentation outline

- Strategic context
- Price setting challenges and influences
- **Community consultation for the submission**
- Price proposals
- Bill impacts on customers
- Matters from public submissions
- New issues

2012 Pricing consultation for the price submission

- Community involvement in the price setting process
- The 2012 pricing consultation covered:
  - Price structure issues
  - Discretionary expenditure
  - Performance against system standards
  - Affordability
- Almost 2,000 responses
  - High statistical reliability – results are ±3% of community view

2012 pricing consultation approach

- Stakeholder interviews
- Major business customer consultation
- Focus groups – pensioners, families, customers in financial hardship and the customer panel
- Consultative forum consultation
- Information brochure mailed to all customers
- Random telephone survey
- Online survey
- Information sessions held in libraries in all LGAs

2012 pricing consultation

- 60% of customers think bills are affordable, 30% do not
- 75% think bill should be more variable than it is
- 57% think the sewerage charges are too high
- 43% favour equalisation of the fixed sewer charge for houses & apartments
- 71% agree with proposed spending on catchment protection
- 69% favour continuing to exceed service standards
  - Water pressure, water supply interruptions, sewage overflows

Presentation outline

- Strategic context
- Price setting challenges and influences
- Community consultation for the submission
- **Price proposals**
- Bill impacts on customers
- Matters from public submissions
- New issues

Our pricing proposals - price path period

Favour a 4-year price path

- Provides pricing certainty for customers & Hunter Water
- Reasonable planning horizon
  - Changes in operating environment are inevitable
    - May have significant impact on business and customers if price period is longer
  - Changes in economy (interest rates, WACC parameters) not be reflected in prices with long price path
- Good balance between certainty & flexibility for future changes

Price proposals – price structures

- Adopted IPART's 2012 price structure proposals
  - Standard fixed service charges for residential properties replacing current charges based on meter size
  - Equalising the fixed charges for small businesses with that of a house

Our pricing proposals – water

- Adopt standard fixed charge for all residential properties & small businesses

- Reduce water service charge & hold constant
  - Down from $19 now to $17 in 2013-14 & then constant

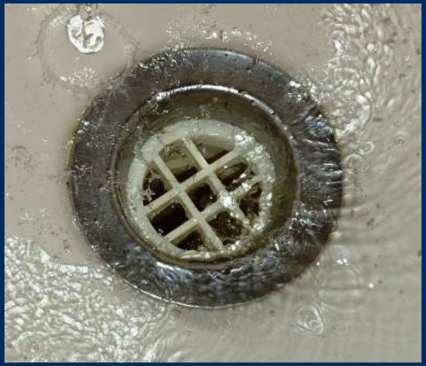
- Water price increases in usage only
  - Increasing from $2.08 now to $2.26 in 2016-17
  - Addresses community desire for greater bill control & reward for water efficiency

- Reduce & align Dungog water service charges with other customers
  - Immediate saving of $36 per year for Dungog households

Why increase the water usage charge?

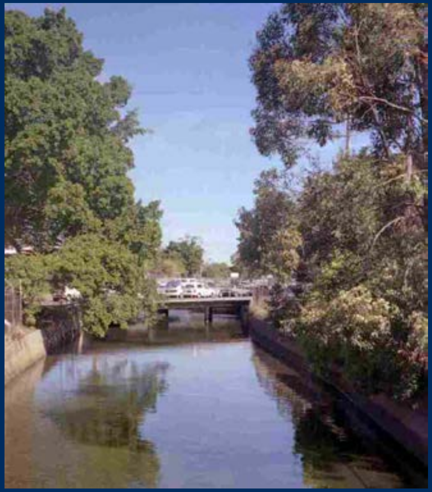
- 75% of customers want more control over bill
- Water usage charge is the bill component controllable by customers
- If maintain current real usage charge, controllable portion of average bill would drop from 39% to 36%
- The proposed usage prices keep controllable portion at 39% for the price path

Our pricing proposals - sewer



- Adopt standard fixed charges for all residential properties and small business for access to the sewer system
- Phase in units & flats service charge at 75% of house charge
  - Reflecting lower capital investment to service individual apartments & feedback from the 2012 pricing consultation
- Reduce Clarence Town sewer levy to match the final cost of the scheme
  - Reduction of $43 in 2013-14

Our pricing proposals – stormwater



- Reduce all stormwater charges
  - Reflecting lower capital investment over the coming price path
- Adopt lower stormwater charge for strata units
  - To improve the equity in charging between strata units & houses & flats
  - Provide consistency with structure adopted by IPART for Sydney Water in 2012

Presentation outline

- Strategic context
- Price setting challenges and influences
- Community consultation for the submission
- Price proposals
- **Bill impacts on customers**
- Matters from public submissions
- New issues

Typical residential bill

($2012-13)

Bill now (2012-13)	$19.10 / week
Next year (2013-14)	$19.60 / week
In 4th year (2016-17)	$20.70 / week

Average increase before inflation = 40 cents per week

Typical apartment bill

($2012-13)

Bill now (2012-13)	$12.80 / week
Next year (2013-14)	$13.55 / week
In 4th year (2016-17)	$15.20 / week

Average increase before inflation = 60 cents per week

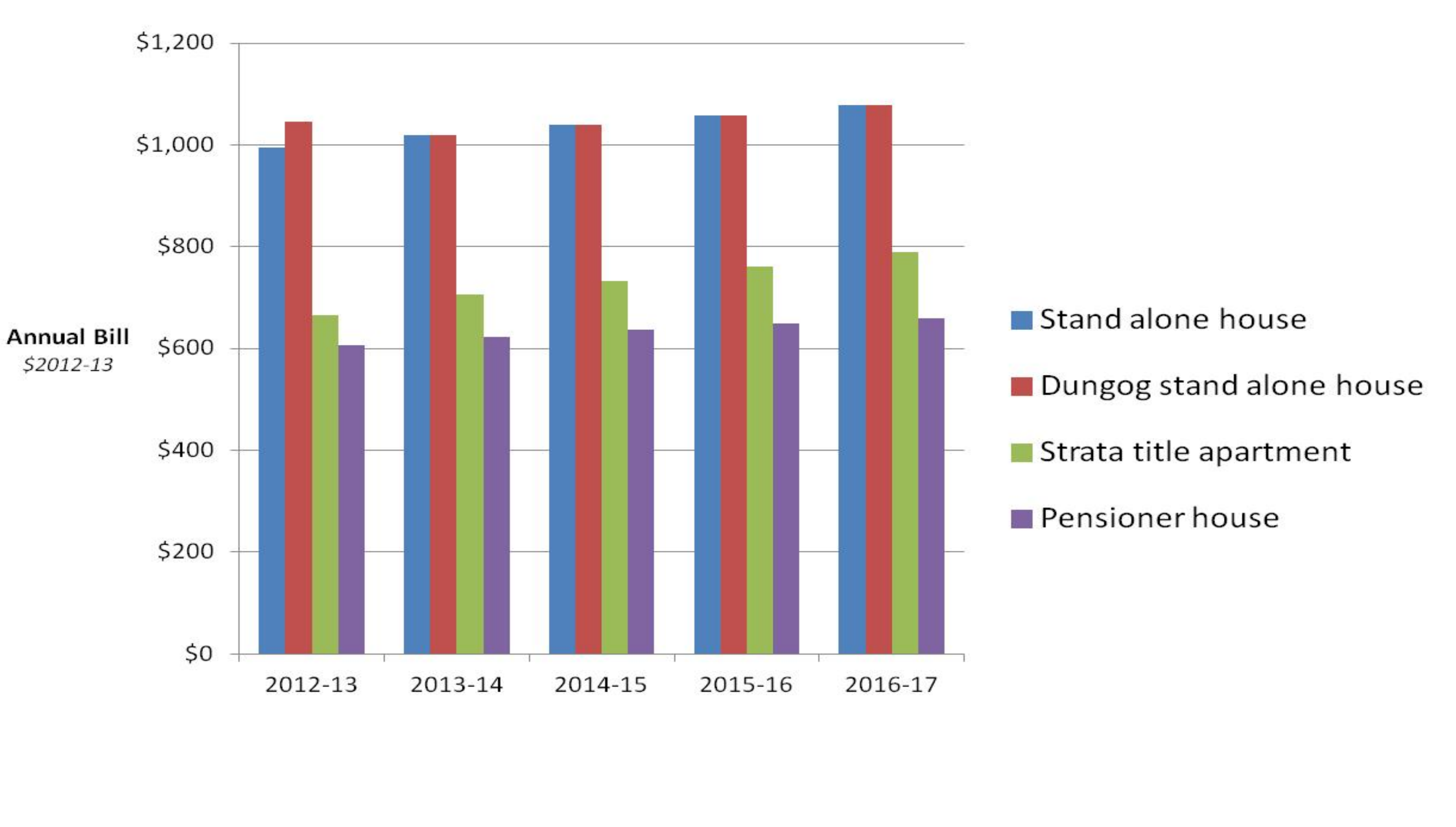
Typical pensioner bill

($2012-13)

Bill now (2012-13)	$11.70 / week
Next year (2013-14)	$12.00 / week
In 4th year (2016-17)	$12.70 / week

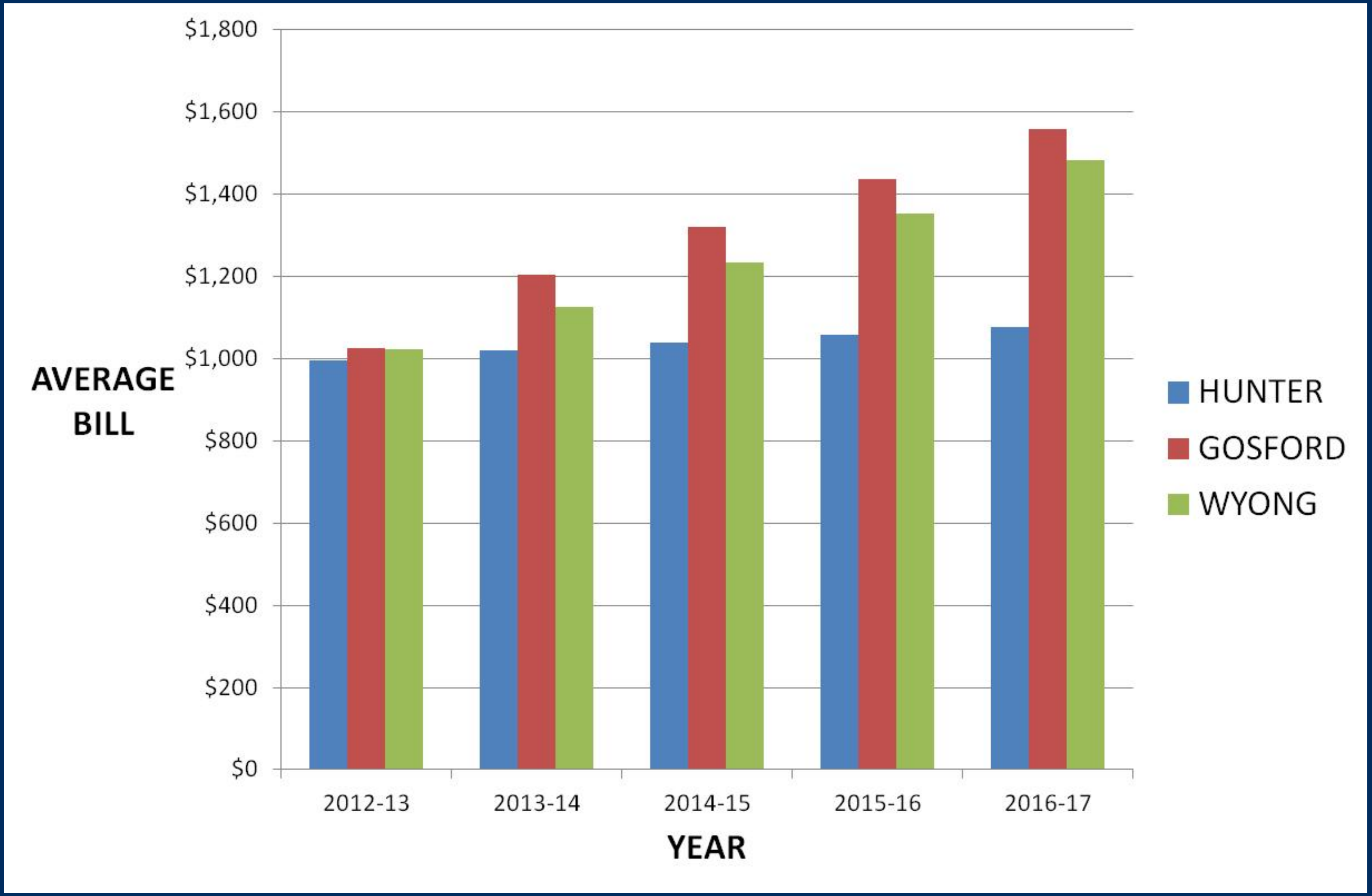
Average increase before inflation = 25 cents per week

Bill relativities

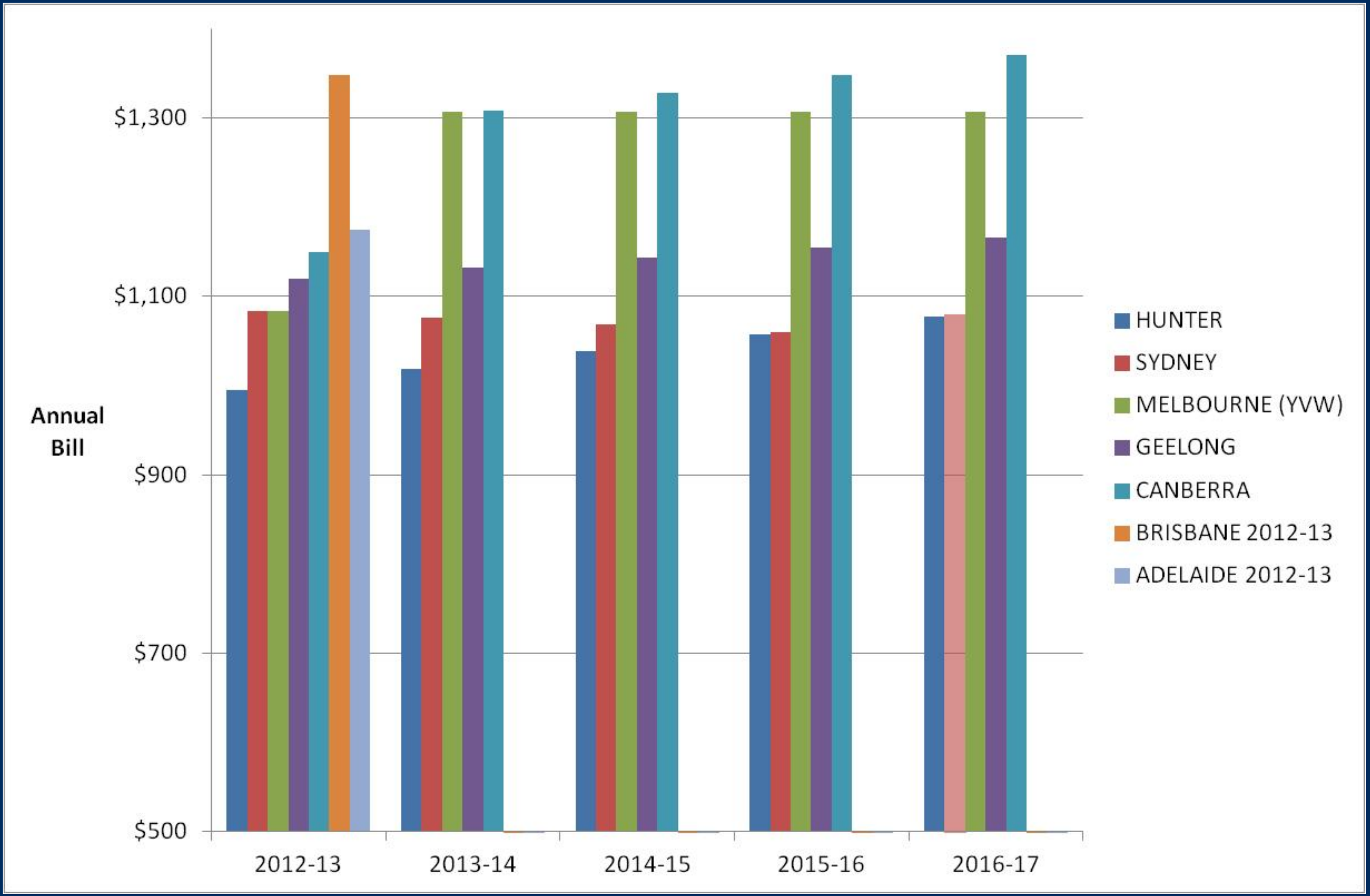


Usage levels: house =185 kL, apartment = 125 kL, pensioner = 140 kL

Av bill comparison with Central Coast 2012 proposals



Av bill comparison – national perspective



Non-residential customer bills

	FY 2013	FY 2017	$ change over 4 years	$ change/year	% change over 4 yrs	% change per year
Small industrial firm	1,298	922	(376)	(94)	(29.0%)	(8.2%)
Small shop - Newcastle	1,363	1,043	(320)	(80)	(23.4%)	(6.5%)
Service station	1,799	1,447	(352)	(88)	(19.5%)	(5.3%)
Regional shopping centre	100,970	105,264	4,294	1,074	4.3%	1.0%
Large industrial firm with sewer	473,775	499,132	25,357	6,339	5.4%	1.3%
Large licenced club	68,472	72,530	4,058	1,014	5.9%	1.4%
Medium industrial firm	197,581	210,653	13,072	3,268	6.6%	1.6%
Nursery low DF	13,770	14,845	1,075	269	7.8%	1.9%
Regional office - Maitland	6,488	7,098	611	153	9.4%	2.3%
Nursery low DF stand alone	1,607	2,030	423	106	26.4%	6.0%

Assistance to customers

- Hunter Water offers a range of assistance measures including:
  - NSW Govt rebates to concession card holders
  - Water usage bill concession for customers with special needs like kidney dialysis
  - Bill management – extension of time to pay, payment instalment plans, budget plans
  - Payment assistance (PAS) vouchers distributed through welfare agencies
  - Funding support for Hunter No Interest Loans Scheme
  - Water efficiency measure programs – eg showerhead program

Centrepay

- Addressing customer affordability is one of our strategic drivers
- Affordability of utility bills is an issue for many customers
- Agree with position advocated by PIAC, NCOSS & EWON
- Timely to introduce Centrepay payments as part of enhanced account assistance policy from July 2013

Presentation outline

- Strategic context
- Price setting challenges and influences
- Community consultation for the submission
- Price proposals
- Bill impacts on customers
- **Matters from public submissions**
- New issues

Pensioner rebate

- Hunter Water's pensioner rebate is linked to overall changes in combined water and sewer bill
- Rebate is adjusted annually
- Linking to total bill takes account of changes in both fixed and variable charges
- Pensioners also benefit from waiver of EIC
- Pensioner rebate will continue to be linked to annual bill changes in next price path

Tillegra

- $25m pre-construction costs related to Tillegra Dam have been written off
  - Costs have not been passed on to customers
- Tillegra land costs are not incorporated in the regulatory asset base
  - There is no recovery of the costs associated with purchase of Tillegra land through customer prices
- Consultants AECOM have been appointed to undertake a land use strategy
  - Hunter Water will continue to engage the local community, including Dungog Shire council

Lower Hunter Water Plan

- Metropolitan Water Directorate is responsible for the development of the Lower Hunter Water Plan
- All options are being investigated except for Tillegra Dam
- Metropolitan Water Directorate has commenced stakeholder consultation

Presentation outline

- Strategic context
- Price setting challenges and influences
- Community consultation for the submission
- Price proposals
- Bill impacts on customers
- Matters from public submissions
- **New issues**

Additional operating costs for superannuation liability

- Superannuation trustee has advised additional superannuation liability payments from July 2013
  - Subject to confirmation

- Potential to increase regulated opex by between $2.5m and $5.2m per year

- This additional opex requirement will need to be factored into pricing consideration

- Potential impact is 0.2% increase in bills over submission proposals or about $10 per bill over price path