



# **IPART review of prices for Water Administration Ministerial Corporation**

From July 2011

**Hunter Water Corporation response to IPART's  
draft determination and report**

November 2010



# **Review of prices for the Water Administration Ministerial Corporation**

**From 1 July 2011**

Hunter Water Corporation response to IPART's draft  
determination and report

November 2010

All inquiries about this submission should be directed to the General Manager, Business Strategy and Communications

☎ 02 4979 9748

📠 02 4925 2078

📧 [price.review@hunterwater.com.au](mailto:price.review@hunterwater.com.au)

**Review of prices for the Water Administration Ministerial Corporation.  
From 1 July 2011  
Hunter Water Corporation response to IPART's draft determination and report**

---

HW2009-1497/18

November 2010  
Hunter Water Corporation  
36 Honeysuckle Drive, Newcastle, NSW 2300  
PO Box 5171 HRMC NSW 2310  
[www.hunterwater.com.au](http://www.hunterwater.com.au)

## Table of Contents

<b>Main Points.....</b>	<b>1</b>
<b>1 Introduction .....</b>	<b>3</b>
<b>2 Hunter Water’s response to the draft determination.....</b>	<b>4</b>
<b>3 Entitlement volume .....</b>	<b>5</b>
<b>4 Alternative assessment of entitlement volume for fixed charges.....</b>	<b>7</b>
4.1 <i>Surface water billing point entitlement volumes.....</i>	<i>7</i>
4.2 <i>Impacts of Hunter Water’s proposal.....</i>	<i>9</i>
<b>References .....</b>	<b>12</b>



**Hunter Water Corporation**  
**Response to IPART's draft determination of prices for the**  
**Water Administration Ministerial Corporation**

**Main Points**

Hunter Water Corporation (Hunter Water) supports IPART's decision not to accept the NSW Office of Water's (NOW) proposal for a fully fixed charge and instead determine a two-part tariff in line with accepted tariff structures in wider water industry.

However, Hunter Water still believes that the total entitlement volumes established by the *Hunter Unregulated and Alluvial Sources Water Sharing Plan 2009* are inaccurate as a basis for the fixed component of the surface water charges. These entitlement volumes were based on the characteristics of the source catchments, including the extreme variability of flows in the Williams River system. This characteristic has no direct relationship to NOW's cost structures.

Furthermore, in Hunter Water's specific circumstances, surface water entitlements are particularly inappropriate because water extracted by Hunter Water from the lower Williams River is subject to two entitlements. This means that, for this water, Hunter Water would pay the fixed charge on two entitlements to the same water.

Under the draft determination, Hunter Water's future bill liability to NOW increases significantly by around \$560,000 for 2011/12. This is an increase of 160 per cent and this cost is not covered by the prices IPART determined for Hunter Water in July 2009.

IPART's draft report acknowledges that Hunter Water would have to carry the additional cost from the increase in NOW's prices for two years before it could make a case for recovery of these higher costs through new water prices. It is not clear whether IPART's comments relate to recovery of the additional costs incurred in 2011/12 and 2012/13 or from 2013 onwards. Hunter Water would like to see this position clarified in the final report.

Even with the draft two-part tariff in place, Hunter Water's future bill liability remains heavily dominated by fixed entitlement charges, with these accounting for 85 per cent of the Hunter Water's bill liability in each year of the proposed price period.

This ratio appears inconsistent with IPART's objective that only 70 per cent of NOW's revenue should be sourced from fixed charges. This situation suggests that Hunter Water, and its customers, are underwriting more revenue certainty to NOW than other users in general.

Hunter Water's response to the draft determination also provides comment on the accuracy of the entitlement information presented by NOW and used by IPART. The entitlement data presented in the draft report appears to cover surface water entitlements only – ignoring Hunter Water's groundwater entitlement. It also appears to include the entitlement of another Hunter Valley major utility. The entitlement data also does not match the entitlements set out in the *Hunter Unregulated and Alluvial Sources Water Sharing Plan 2009*, which Hunter Water used as the basis for information presented in its June 2010 submission.

In this response, Hunter Water proposes an alternative application of its surface water sharing plan entitlements to charging the fixed component of the two-part tariff. Under this proposal, only Hunter Water's entitlement volumes at the billing points agreed with NOW during the water sharing plan consultations are used as the basis for fixed charges. These billing points are the only extraction points at which volumetric charges are levied.

At the time these billing points were established during the water sharing plan consultation, Hunter Water was only charged on actual extractions. These billing points were adopted to avoid double counting of extracted volumes. Hunter Water believes the same logic is equally applicable to entitlement volumes.

The main advantages of Hunter Water's proposed approach are:

- It applies the fixed charge to entitlements at only the agreed billing points and so addresses the issue of paying the fixed charge on two entitlements to the same water.
- Fixed charges account for a smaller proportion of Hunter Water's future bill liability than under the draft determination outcome. The fixed component is reduced from 85 per cent of future bills to 80 per cent. This reduces the extent to which Hunter Water and its customers underwrite NOW's revenue certainty.
- It reduces Hunter Water's proportionate contribution to NOW's revenue requirement to a level that is more reflective of Hunter Water's footprint on the Hunter Valley's unregulated river systems.

Hunter Water acknowledges that this strategy will increase overall fixed entitlement charges for all Hunter Valley unregulated river users. However, the resultant higher charge of around \$2.90 per megalitre of entitlement for 2011/12 is well within the range of draft fixed charges for other valleys and below the midpoint of that range. As a result, the change in entitlement volumes for Hunter Water does not disadvantage other Hunter Valley unregulated river users relative to users in the rest of New South Wales.

Hunter Water believes that its proposed revision to the draft determination, and to the entitlement basis for the fixed component of unregulated river charges applying to Hunter Water, would deliver a more equitable pricing arrangement between Hunter Valley water users and Hunter Water's customers.

## 1 Introduction

Hunter Water Corporation (Hunter Water) is a customer of the Water Administration Ministerial Corporation (WAMC) because it holds major utility access licences to surface and groundwater sources in the Hunter Valley. Other than a very small entitlement to water from the regulated Paterson River for the township of Gresford, Hunter Water's licences are for access to unregulated surface water sources and groundwater.

Hunter Water made a submission to IPART's review prices for the WAMC in June 2010 and supported this submission with a presentation to the public hearing in Sydney on 23 July 2010.

The main points in Hunter Water's June 2010 submission were:

- Moving to fixed charges based on entitlement is inappropriate because Hunter Water's water sharing plan entitlements were established and structured as resource management instruments, not pricing tools. (*Hunter Water submission, section 2.4*)
- Using these water sharing plan entitlements as a basis for pricing is inequitable in Hunter Water's view. It results in Hunter Water meeting approximately 60 per cent of the NSW Office of Water's (NOW) costs of managing all the unregulated and alluvial systems of the Hunter Valley. This is considered to be beyond Hunter Water's footprint on the water resources of the broader Hunter catchment. (*Hunter Water submission, section 5*)
- Surface water entitlements are particularly inappropriate because water extracted by Hunter Water from the lower Williams River is subject to two entitlements. This means that, by paying fixed charges based on entitlements, Hunter Water would pay the fixed charge on two entitlements to the same water. (*Hunter Water submission, section 2.4*)

With the exception of the Sydney Catchment Authority, Hunter Water is not aware that any other water user has more than one entitlement for access to the same water.

- Adopting the NOW price proposals would result in Hunter Water's 2010/11 bill liability increasing by between 320 per cent and 380 per cent. This increase is not covered by the prices set by IPART for Hunter Water in 2009.

Accordingly, Hunter Water requested that if IPART approves such a significant increase in bill liability, it also make provision for these charges to be recovered retrospectively as prudent expenditure at Hunter Water's next price review in 2013. (*Hunter Water submission, sections 4.1 and 4.2*)

- If IPART decided to determine a fully fixed charge, Hunter Water suggested that the fixed charge should be based on the long-term average annual extraction limit set out in the 2009 water sharing plan for the Hunter unregulated and alluvial sources. (*Hunter Water submission, section 7*)

In its draft determination, IPART did not accept NOW's proposal for a totally fixed charge based on entitlement. Instead, IPART chose to adopt a two-part tariff

whereby 70 per cent of NOW's revenue requirement would come from fixed charges based on entitlement volumes and 30 per cent from volumetric usage charges.

IPART also did not accept Hunter Water's position that its large entitlement volume, established to manage water extractions as required by the *Water Management Act 2000*, is not an appropriate basis for charges.

IPART's draft determination still results in significant implications for Hunter Water and these are detailed in the following section.

## **2 Hunter Water's response to the draft determination**

Hunter Water supports IPART's decision not to accept NOW's proposal for a fully fixed charge and instead determine a two-part tariff in line with accepted tariff structures in wider water industry.

However, Hunter Water still believes that the total entitlement volumes established by the *Hunter Unregulated and Alluvial Sources Water Sharing Plan 2009* are inappropriate as a basis for the fixed component of the surface water charges. The entitlement volumes were based on the characteristics of the source catchments, including the extreme variability of flows in the surface water resources. This characteristic has no direct relationship to NOW's cost structures and is, at best, a weak proxy.

Furthermore, using the total surface water entitlement as the basis for the fixed component of the two-part tariff means that the issue of paying twice for entitlement to the same water is not addressed.

Under the draft determination, Hunter Water's future bill liability to NOW increases significantly by around \$560,000 for 2011/12 over the 2010/11 liability. This is an increase of 160 per cent and this cost is not covered by the prices IPART determined for Hunter Water in July 2009.

IPART's draft report acknowledges that Hunter Water would have to carry the additional cost arising from increases in NOW's prices for two years before it could make a case for recovery of this cost through new water prices. It is not clear whether IPART's comments relate to recovery of additional costs incurred in 2011/12 and 2012/13 or from 2013 onwards. Hunter Water would like to see this position clarified in the final report.

Even with the setting of a two-part tariff (in place of NOW's proposed fixed entitlement charge), Hunter Water's future bill liability to NOW remains heavily dominated by fixed entitlement charges, with these accounting for 85 per cent of the Hunter Water's bill liability in each year of the proposed price period. This high proportion of fixed charge liability is a direct result of Hunter Water's large entitlement volume and the fact that Hunter Water has two entitlements to some water. This situation appears inconsistent with IPART's objective that only 70 per cent of NOW's revenue should be sourced from fixed charges. It also means that Hunter Water, and its customers, are underwriting more revenue certainty to NOW than other users in general.

Hunter Water's analysis of IPART's draft two-part tariff structure also shows that Hunter Water will be meeting approximately 67 per cent of NOW's fixed charge revenue from unregulated river users in the Hunter.

In the following sections of this response to the draft determination, Hunter Water:

- Provides comment on IPART's assertion that Hunter Water did not dispute the accuracy of the entitlement information presented by NOW. While Hunter Water's submission did not explicitly state that it "disputed" the information, Hunter Water did base its submission on the entitlement volumes in the current surface water and groundwater water sharing plans. This information, which was presented throughout Hunter Water's June submission, does not agree with the surface water entitlements assigned to Hunter Water in Table 8.5 of the draft determination report<sup>1</sup>.
- Proposes an alternative entitlement assessment whereby only entitlement volumes at the billing points agreed with NOW during water sharing plan consultations are used as a basis for fixed charges. These are the only extraction points at which volumetric charges are levied.

At the time these billing points were established during the water sharing plan consultation process, Hunter Water only paid volumetric charges on actual extractions in accordance with IPART's 2006 determination for WAMC prices. These billing points were adopted to avoid double counting of extracted volumes. Hunter Water believes the same logic is equally applicable to entitlement volumes to avoid double counting entitlements to the same water.

Hunter Water acknowledges that this strategy will increase overall fixed entitlement charges for all Hunter Valley users. However, the resultant higher charge is still well within the range of draft determination entitlement prices across the State.

### 3 Entitlement volume

Table 8.5 in the draft determination report quotes Hunter Water's total entitlement volume at 376,700 megalitres per annum. This entitlement volume is inconsistent with the volumes presented in Hunter Water's June 2010 submission to IPART and the volumes established in the relevant gazetted water sharing plans.<sup>2</sup>

This entitlement volume of 376,700 megalitres appears to be the surface water entitlement quoted in Table 16 of the Office of Water's December 2009 submission.<sup>3</sup> The entitlement volume of 376,700 megalitres in that table is the unregulated surface water entitlement for all major utility licence holders in the Hunter Valley and includes the entitlements of both Hunter Water and Macquarie Generation.

In addition to its surface water entitlement, Hunter Water also has a groundwater entitlement under the water sharing plan for the Tomago-Tomaree-Stockton groundwater sources totalling 29,000 megalitres per annum. On the presumption that the entitlement volume of 376,700 megalitres in Table 8.5 of IPART's report is drawn from Table 16 of NOW's December 2009 submission, the entitlement volume in Table 8.5 appears to have overlooked Hunter Water's groundwater entitlement.

---

<sup>1</sup> Hunter Water's June submission provided water sharing plan entitlement volumes in section 2.1, 2.2 and 2.3, Figure 2 (page 7) and Table 2 (page 9).

<sup>2</sup> *Water Sharing Plan for the Hunter Unregulated and Alluvial Sources 2009 (347) (NSW)* and *Water Sharing Plan for the Tomago Tomaree Stockton Groundwater Sources 2003 (118) (NSW)*

<sup>3</sup> NSW Office of Water, 2009, *Submission for 2010 Bulk Water Price Review*, Table 16, page 62, December

The draft determination report states “Neither HWC nor SCA disputed the accuracy of the entitlement information presented by NOW”. Hunter Water did not challenge the surface water entitlement information presented in the NOW submission because the NOW submission contained only a total valley entitlement for major utilities. This total major utility entitlement includes the entitlement for Macquarie Generation, which is also licensed as a major utility. That is, the major utility entitlement volume presented in the NOW submission was the total for Hunter Water and Macquarie Generation and it was not possible to separately identify Hunter Water’s entitlement within that total and therefore dispute its accuracy.

However, Hunter Water’s June 2010 submission did present the entitlement volumes set out in the relevant surface water and groundwater water sharing plans as a means of clarifying any ambiguity surrounding entitlement volumes. Because water sharing plans are legal documents under the *Water Management Act 2000*, Hunter Water considers the entitlement volumes set out in these plans to have primacy over other sources of information on entitlement volumes.

Hunter Water’s June 2010 submission clearly identified Hunter Water’s understanding of its entitlement volumes. Sections 2.1 and 2.2 of Hunter Water’s submission detailed Hunter Water’s surface and groundwater entitlement volumes as shown in gazetted water sharing plans and these were summarised in Table 2 of the submission. This information also was included in Hunter Water’s presentation to the Sydney public hearing<sup>4</sup>.

Details of Hunter Water’s entitlements from the water sharing plans are reiterated in Table 1. The individual source entitlements shown in this table provide the component breakdown of the water sharing plan entitlements. The components of the total surface water entitlement were also illustrated in Figure 2 of Hunter Water’s submission and in slide 7 of the presentation to the Sydney hearing.

**Table 1  
Hunter Water’s entitlement volumes**

<b>Surface Water entitlements<sup>a</sup></b>	
<b>Source</b>	<b>Entitlement Volume (ML/yr)</b>
Chichester Dam	50,000
Balickera Pumping Station	189,000
Newcastle water source (Grahamstown Dam)	100,000
<b>Total Surface Water</b>	<b>339,000</b>
<b>Groundwater entitlements<sup>b</sup></b>	
<b>Source</b>	<b>Entitlement Volume (ML/yr)</b>
Tomago	25,300
Tomaree	3,700
<b>Total Groundwater</b>	<b>29,000</b>
<b>Total All sources</b>	<b>368,000</b>

<sup>a</sup> Water Sharing Plan for Hunter Unregulated and Alluvial Sources 2009, clause 29 (1) (a) and (b)

<sup>b</sup> Water Sharing Plan for the Tomago Tomaree Stockton Groundwater Sources 2003, 28 (2) (e).

Accordingly, Hunter Water considers the correct entitlement volume for its surface water and groundwater sources to be 368,000 megalitres per annum, not 376,700 megalitres shown in Table 8.5 of the draft determination report. Because of the aggregate data presented in the NOW submission, Hunter Water was not in a

<sup>4</sup> Slide 5 of Hunter Water’s presentation to the Sydney Hearing.

position to “dispute” the data but did present its understanding of the entitlement volumes in both its formal submission and presentation to the Sydney hearing.

#### **4 Alternative assessment of entitlement volume for fixed charges**

In its June 2010 submission to IPART, Hunter Water proposed the long-term average extraction limit (LTAAEL)<sup>5</sup> set in the water sharing plan for the Hunter unregulated and alluvial sources as an alternative to the total water sharing plan entitlements (as shown in Table 1) as a basis for a fully fixed charge.

In the light of the draft determination setting a two-part tariff, Hunter Water considers that it would be more appropriate to base the unregulated river fixed component of the two-part tariff on the entitlements applying at the unregulated river billing points agreed with NOW during the water sharing plan consultation process.

The main advantages of this approach are:

- It applies the fixed charge to entitlements at only the agreed billing points and so addresses the issue of paying the fixed charge on two entitlements to the same water.
- Fixed charges account for a smaller proportion of Hunter Water’s future bill liability than under the draft determination outcome. The fixed component is reduced from 85 per cent of future bills to 80 per cent. This reduces the extent to which Hunter Water and its customers underwrite NOW’s revenue certainty.
- It reduces Hunter Water’s proportionate contribution to NOW’s revenue requirement to a level that is more reflective of Hunter Water’s footprint on the Hunter Valley’s unregulated river systems.

This proposal only changes the entitlement volume used as a basis for fixed charges applying to access to unregulated rivers. The entitlement volume used as a basis for fixed charges for groundwater is not changed under this proposal.

##### **4.1 Surface water billing point entitlement volumes**

Hunter Water’s surface water sources are the Williams River and the Newcastle water source. The Williams River is an unregulated tributary of the Hunter River, running from the Barrington ranges to the Hunter River estuary at Raymond Terrace. The Newcastle water source is the catchment of Hunter Water’s Grahamstown Dam – an off-river dam that stores both water pumped from the lower Williams River at Balickera and inflow from its own small catchment.

Hunter Water extracts water from the Williams River at two locations – Chichester Dam in the upper Williams River valley and at Balickera near Seaham, just upstream of the Williams River estuary. Water extracted at Balickera is pumped to the off-river storage, Grahamstown Dam. Because natural inflows also contribute to Grahamstown Dam, a further entitlement was established in the water sharing plan for extraction from Grahamstown Dam. This entitlement allows Hunter Water to

---

<sup>5</sup> While the LTAAEL is defined in the surface water sharing plan for the Hunter unregulated and alluvial sources, the LTAAEL is the effective total extraction limit for both surface and groundwater sources accessed by Hunter Water. This limit is established, and its application defined, in clause 44(5) of the water sharing plan.

extract water from the dam that is sourced both by pumping from Balickera and from the dam's own catchment.

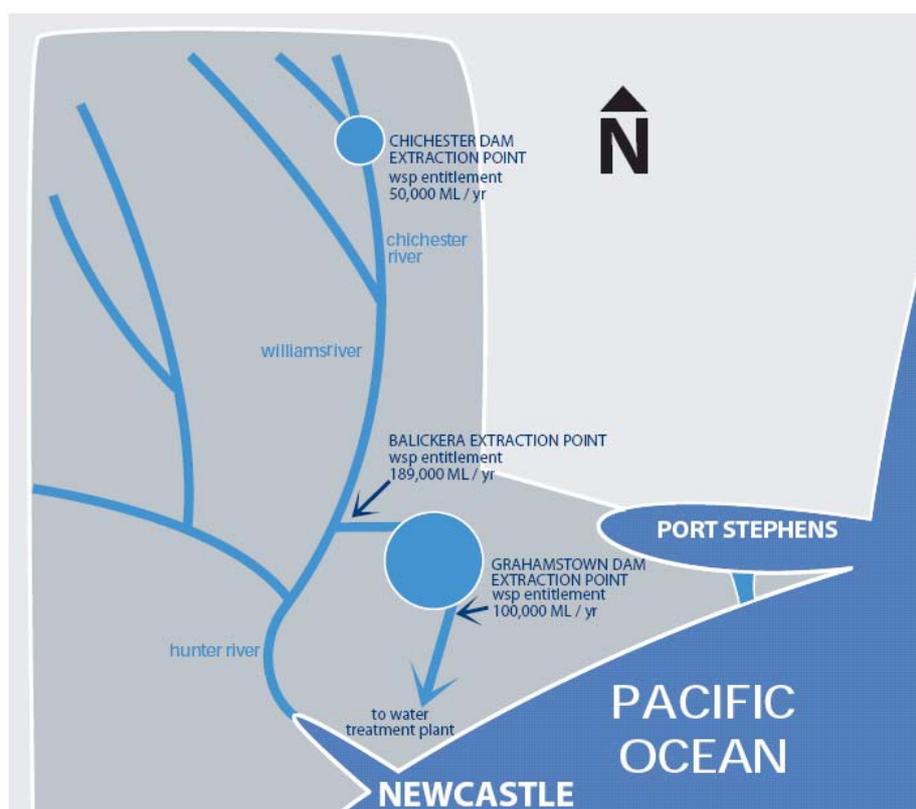
For these surface water sources, Hunter Water has entitlements to extract surface water at three points:

- Chichester Dam
- Balickera near Seaham (for pumping to Grahamstown Dam), and
- Grahamstown Dam (referred to as the Newcastle water source in the water sharing plan)

Table 1 and Figure 1 show the entitlements for each of these extraction points.

Water for treatment and supply to the distribution network is extracted at only two of these locations – Chichester Dam and Grahamstown Dam.

**Figure 1**  
**Surface water extraction points and entitlement volumes**



Between 2006 and 2009, the Office of Water and its predecessor agencies engaged in extensive stakeholder consultation with Hunter Water about the entitlement volumes and conditions for inclusion in the *Hunter Unregulated and Alluvial Sources Water Sharing Plan 2009*. During this consultation process, it was agreed that volumetric charges would only be applied at the Chichester Dam extraction point and at the extraction point from Grahamstown Dam (the Newcastle water source extraction point).

These two billing points were established specifically to avoid the possibility of charging twice for water extracted at Balickera and transferred to Grahamstown Dam

– once when it is extracted from the river at Balickera and again when it is extracted from the dam for supply to the treatment plant. As mentioned earlier, these two points are where Hunter Water extracts surface water for direct supply to its treatment and distribution network.

Because the Chichester Dam and Grahamstown Dam extraction points are the only points at which water is finally extracted from the natural system, the entitlements at these two points define Hunter Water’s annual extraction entitlement for the purposes of consumptive use. The entitlement at Balickera is an entitlement to extract water for storage in Grahamstown Dam for later use. Subsequent extraction of this water for supply to Hunter Water’s customers is covered by the Grahamstown Dam entitlement.

Hunter Water considers that only entitlements at points in the surface water system where water is extracted for supply to the treatment and distribution system should be used as a basis for unregulated river fixed charges. These points are the billing points for volumetric charges agreed with NOW during the water sharing plan consultation process. Using entitlements at these billing points only as a basis for the fixed component provides consistency between fixed and volumetric charging. Most importantly, it addresses the issue of paying entitlement charges twice on the same water.

Under Hunter Water’s alternative proposal, Hunter Water’s unregulated river fixed charge would be based only on the entitlement volumes at Chichester Dam and Grahamstown Dam as shown in Table 2. These entitlements total 150,000 megalitres per year.

Adopting this entitlement volume as a basis for fixed charges would reduce the entitlement basis for these charges by 189,000 megalitres and this volume is equivalent to water sharing plan entitlement at Balickera. As Balickera is not a billing point for volumetric charges, not including the Balickera entitlement ensures consistency between the charging basis for fixed and volumetric charges.

**Table 2  
Entitlement volumes for fixed charges**

<b>Source</b>	<b>Entitlement Volume (ML/yr)</b>
Total surface water entitlement volume from Table 1	339,000
Proposed entitlement volumes for fixed charges	
Chichester Dam	50,000
Newcastle water source (Grahamstown Dam)	100,000
<b>Entitlement volumes for fixed charges</b>	<b>150,000</b>
<b>Reduction in entitlement volume from IPART draft determination</b>	<b>189,000</b>

## 4.2 Impacts of Hunter Water’s proposal

There are four main impacts from adopting Hunter Water’s alternative proposal. These are:

- A reduction in the increase in Hunter Water’s future bill liability.

- A reduction in the fixed proportion of Hunter Water's fixed/volumetric bill liability from 85 per cent fixed to 80 per cent fixed.
- A reduction in Hunter Water's contribution to NOW's revenue from the fixed component of Hunter Valley unregulated river tariffs.
- An increase in the fixed component of the unregulated river two-part tariff for the Hunter Valley for all users. This is necessary to maintain NOW's revenue requirement.

### ***Reduced increase in Hunter Water's bill liability***

Under the draft determination, Hunter Water estimates its 2011/12 bill liability will increase from around \$352,000 in 2010/11 to around \$911,000. This is an increase of 160 per cent.

Under Hunter Water's alternative proposal, the projected 2011/12 bill liability would be \$675,000 or an increase of 92 per cent.

### ***Reduction in the fixed charge component of bill liability***

The tariff structure in the draft determination would see 85 per cent of Hunter Water's future bill liability being met from the fixed component of its future bills. Hunter Water considers that this is a very high proportion, particularly in the context of IPART's intention that 70 per cent of NOW's revenue should be derived from fixed charges and the remaining 30 per cent from volumetric charges. The effect of this outcome is that Hunter Water and its customers are underwriting greater revenue certainty for NOW than other users. Hunter Water does not believe this is an equitable distribution.

Hunter Water's alternative proposal only marginally changes this situation but does so in the right direction. Under Hunter Water's proposal, only 80 per cent of Hunter Water's future bill liability would be met from fixed charges.

### ***Reduction in Hunter Water's contribution to NOW's fixed charge revenue.***

Hunter Water's analysis indicates that, under the draft determination tariff structure, Hunter Water would contribute approximately 67 per cent of the revenue from fixed charges paid by Hunter Valley unregulated river users.

Under Hunter Water's alternative proposal, Hunter Water would contribute to around 47 per cent of NOW's revenue from the fixed component of unregulated river charges in the Hunter Valley.

### ***Increase in the fixed component of the Hunter Valley unregulated river tariff***

Hunter Water recognises that its proposal would require an increase in the fixed component of Hunter Valley unregulated river tariff in order to maintain NOW's revenue target for fixed charges. Hunter Water has modelled what level of charge would be needed to maintain the same revenue from fixed charges after reducing the total valley entitlement volume by 189,000 megalitres, as proposed in Table 2 of this response.

Hunter Water's analysis shows that the fixed component of the Hunter Valley unregulated for 2011/12 would need to increase from \$1.97 per megalitre of

entitlement (as shown in Table K.3 of the draft determination report) to around \$2.90 per megalitre. The increase in fixed prices for the following two years would be:

- 2012/13 – from \$2.08 to \$3.05 (\$2010/11)
- 2013/14 – from \$2.14 to \$3.15 (\$2010/11)

Hunter Water does not consider this level of charge to be unreasonable when considered against the fixed component of the two-part tariff for other New South Wales river valleys. For 2011/12, the draft determination sets fixed charges ranging from \$1.95 per megalitre on the South Coast to \$5.70 per megalitre on the North Coast. The draft fixed charges for all valleys are shown in Table 3. The mid point of this price range is \$3.83 per megalitre - \$0.93 higher than Hunter Water estimates would be required for the Hunter Valley under its alternative proposal.

**Table 3**  
**Draft fixed charges for unregulated rivers 2011/12**

Valley	Price (\$2010/11 per ML)
Border, Gwydir, Namoi and Peel	\$2.41
Lachlan	\$4.28
Macquarie	\$4.28
Far West	\$3.88
Murray	\$4.44
Murrumbidgee	\$5.35
North Coast	\$5.70
<b>Hunter</b>	<b>\$1.97</b>
South Coast	\$1.95

Source: Table K.3, IPART 2010

If 2011/12 Hunter Valley unregulated fixed charges were set at \$2.90 per megalitre as proposed by Hunter Water, fixed charges in six of the eleven other valleys in NSW would still have higher prices for the fixed component of the two-part tariff. The proposed charge of \$2.90 also appears reasonable compared with the draft determination fixed charge of \$5.70 per megalitre for the adjacent North Coast region.

It is also noteworthy that the valleys with the lowest draft fixed component prices for unregulated rivers in 2011/12 are the South Coast (\$1.95 per megalitre) and the Hunter (\$1.97 per megalitre). These prices are appreciably lower than the next highest fixed charge at \$2.41 per megalitre applying to four of the State's north-western river valleys. It is reasonable to presume that the South Coast and the Hunter only have these appreciably lower fixed component prices because of the influence of the substantial entitlements allocated to the Sydney Catchment Authority and Hunter Water Corporation.

This situation supports Hunter Water's earlier contention that basing Hunter Water's fixed charges on the water sharing plan entitlement volume results in Hunter Water paying fixed charges that are disproportionate to its footprint on the Hunter Valleys unregulated river systems.

## References

Department of Environment, Climate Change and Water (NSW), 2009, **Review of 2010 Bulk Water Prices. New South Wales Office of Water submission to IPART**, Sydney, December

Department of Environment, Climate Change and Water (NSW), 2010, **New South Wales Office of Water Submission for 2010 Bulk Water Price Review. Minor Amendments due to Revised Cost and Tariff Model**, Sydney, May

Independent Pricing and Regulatory Tribunal (NSW), 2009 [a], **Review of prices for water, sewerage, stormwater and other services for Hunter Water Corporation. From date of gazettal. Water – Final Report**, Sydney, July

Independent Pricing and Regulatory Tribunal (NSW), 2009 [b], **Review of prices for Water Administration Ministerial Corporation. From July 2010: Issues Paper**, Sydney, July

Independent Pricing and Regulatory Tribunal (NSW), 2010, **Review of prices for Water Administration Ministerial Corporation. For the NSW Office of Water – From 1 July 2011: Water – Draft Report**, Sydney, October

Hunter Water Corporation, 2005, **Submission to the Review of Bulk Water Prices 2006/07 by the Independent Pricing and Regulatory Tribunal**, Newcastle, November

Hunter Water Corporation, 2010, **IPART Review of prices for Water Administration Ministerial Corporation. From July 2010. Hunter Water Corporation Submission**, Newcastle, June

*Water Sharing Plan for the Hunter Unregulated and Alluvial Sources 2009 (347) (NSW)*

*Water Sharing Plan for the Tomago Tomaree Stockton Groundwater Sources 2003 (118) (NSW)*