HUNTER WATER CORPORATION

RESPONSE TO DRAFT DETERMINATION AND REPORT ON PRICES FOR WATER SUPPLY, WASTEWATER AND STORMWATER SERVICES

JULY 2005

All inquiries about this response should be directed to the Manager, Corporate Planning and Government Regulation.

☎ 02 4979 9748

🖷 02 4925 2078

💻 corporateplanning@hunterwater.com.au

July 2005
Hunter Water Corporation
426-432 King Street, Newcastle West, NSW 2302
PO Box 5171 HRMC NSW 2310
www.hunterwater.com.au

1. INTRODUCTION

This document provides Hunter Water Corporation's comments on the draft price determination and accompanying report issued by the Independent Pricing and Regulatory Tribunal (IPART) on 17 June 2005.

Hunter Water's comments relate to:

- IPART's proposal for a mechanism to address water agency risks associated with variations between forecast and actual consumption (Report section 3.2)
- Exclusion of capital expenditure related to Tillegra Dam (Report section 6.3)
- Efficient forecast capital expenditure (Report section 6.4)
- Capital project delivery and capital expenditure output measures (Report section 6.5)
- Regulatory asset base and rate of return (Report section 7.3)
- Draft decision relating to location-based water charges and charges for raw water (Report section 9.5.1)
- Water sales to Gosford and Wyong Councils (Report section 9.5.1)
- Draft decision relating to stormwater charges (Report section 9.5.3)
- Implications for customers (Report section 10.4.1)

2. MECHANISM TO ADDRESS AGENCY RISKS ASSOCIATED WITH DEMAND VARIATIONS

Hunter Water supports the Tribunal's proposed approach that, where consumption variations are within a ±10% "deadband", no adjustment to prices is warranted. Thus the risks/gains of consumption within the deadband are borne by the agency while risks/gains outside the deadband are passed through to customers.

The Corporation also supports the view that any adjustment for variations outside the ±10% deadband be taken into account by adjusting the revenue requirement in the subsequent price path. Hunter Water believes that this adjustment should only apply to consumption above or below the deadband range so ensuring that the risks or gains of consumption within the deadband range remain with the agency.

In addition to being an appropriate mechanism for dealing with downside risks associated with droughts and restrictions, Hunter Water sees this as being an appropriate mechanism for taking account of unexpected, and possibly short-term, increases in demand.

3. EXCLUSION OF CAPITAL EXPENDITURE RELATED TO TILLEGRA DAM

It is interesting to note that both Halcrow in 2003 and Atkins/Cardno in 2005 both regarded expenditure on securing the next major water source site as not being prudent expenditure. As a result, the Tribunal has not included this expenditure in the asset base.

The prudency test applied by the Tribunal is related to the timing of the investment in the land to be occupied and inundated by Tillegra Dam well ahead of its projected construction time. It is true that there are no current plans to build Tillegra Dam in the

immediate future. However, it is still considered to be a future augmentation option. In this context, Hunter Water believes it is prudent resource planning for the Corporation to purchase any land required for the proposed dam as it is placed on the market by current owners. Hunter Water believes it is inconsistent that, at a time when water utilities throughout Australia are appropriately initiating significant contingency supply arrangements like desalination, the Tribunal does not regard Hunter Water's relatively modest expenditure to secure longer-term source options as prudent.

There have been very firm Government commitments to purchase land in the catchment of the proposed dam going back to 1983. Even though the dam is not required in the short term, purchase of the land is perceived by the community to be a standing Government commitment and this is the context in which Hunter Water has become a purchaser. The dam proposal is commonly known in the region along with the fact that the Corporation has already acquired much of the land.

In the absence of a decision to abandon Tillegra as a future storage option, the ongoing land purchase should be regarded as a reasonable community obligation on the Corporation. Capital expenditure on this land therefore should not be excluded from the asset base.

It should also be noted that all land purchased is leased out for productive use and the receipts from those lease arrangements are included in the Corporation's revenue stream, further legitimising inclusion in the asset base.

4. EFFICIENT FORECAST CAPITAL EXPENDITURE

4.1 The Tribunal's draft finding on efficient forward capital expenditure

Hunter Water has invested considerable effort in working with the Tribunal on matters relating to this price determination. The Corporation has provided IPART with substantial review and commentary of the work of Atkins/Cardno in assessing the future capital works program and in providing considerable further information. Hunter Water provided commentary on the draft report prepared by Atkins/Cardno, made a presentation to the Tribunal secretariat, and provided commentary on the final report with a further presentation. The Corporation has also provided a significant amount of additional information. It is disappointing to note that, in spite of these efforts, the Tribunal has acknowledged, but not accepted, Hunter Water's views and has adopted the consultant's recommendations without modification.

Hunter Water also provided the Tribunal with a supplementary submission in March 2005 outlining further capital cost considerations. In particular, the Corporation's supplementary submission highlighted real cost increases in capital projects reflected in tender prices received in the latter half of 2004 and early 2005 and being seen in engineering cost indexes issued by the Australian Bureau of Statistics. Anectdotally, the Australian financial press is also reporting these cost trends for capital works.

The capital requirements outlined in the Corporation's September 2004 submission and March 2005 supplementary submission total just over $350m (in 2004/05$) for 2005/06 to 2008/09. This compares with the Tribunal's draft finding on efficient capital requirements of $295m. This figure is the same as the Atkins/Cardno recommendation indicating, as stated earlier, that the Tribunal has not accepted any of Hunter Water's arguments relating to variations between Hunter Water's position and the consultant's recommendations. It is noteworthy that the capital expenditure determined by the Tribunal is some $55m (or 16%) less than that sought by Hunter Water. In response, the

Corporation affirms its position that adoption of the Tribunal's finding on capital expenditure would affect performance against regulatory requirements (some of which are set by the Tribunal) and the Corporation's ability to provide infrastructure for population growth.

It is not the Corporation's intention to reiterate all its views on the Atkins/Cardno recommendations in this response because the Tribunal has separately engaged Atkins/Cardno to review its earlier recommendations and the Corporation's March 2005 supplementary submission. The outcome of this review is expected to be available at the same time as the Corporation submits this response on the draft determination to IPART.

However, some points are made here relating to the changes to the timing of capital expenditure and other reductions recommended by Atkins/Cardno. These relate to:

- Wastewater capital expenditure to meet Department of Environment and Conservation licence requirements.
- Timing of capital expenditure for Priority Sewerage Program works
- Re-phasing of water and wastewater capital projects required for population growth
- Unrealistic assumptions on potential capital spending efficiencies.

4.2 Wastewater capital expenditure to meet DEC licence requirements

A considerable amount of the wastewater capital expenditure relates to meeting Department of Environment and Conservation (DEC) licence requirements for the sewerage pipe network and these licences now specify significant targets to be met by mid 2007.

This information was provided to both IPART and Atkins/Cardno. Atkins/Cardno commented that some licence requirements are still being determined in negotiations between DEC and Hunter Water and this comment is repeated in the draft determination report (see page 38). Hunter Water is engaged in negotiation of future DEC licence requirements but these negotiations relate to works that essentially will be required beyond the price determination period. The capital programs in the Corporation's submissions relate to requirements that are in existing DEC licences with works required by mid 2007.

Even though Hunter Water and the DEC have provided clarification of this point, IPART's draft determination adopts the Atkins/Cardno recommendation to re-phase significant wastewater capital expenditure from the first two years of the price period (2005/06 and 2006/07) to the second two years. This re-phasing does not take account of works planned or underway to meet existing DEC licences.

4.3 Timing of capital expenditure for Priority Sewerage Program works

Another significant element of Hunter Water's wastewater capital program is the provision of backlog sewer to a number of Hunter communities under the NSW Government's Priority Sewerage Program (PSP). This involves four separate projects with completion dates between June 2007 and December 2009 with three of the four areas scheduled for completion by the end of 2007.

It is interesting to note that the Tribunal included completion dates for PSP projects in the Sydney area as "must meet" requirements in the Operating Licence issued to Sydney Water and effective from 1 July 2005.

It would therefore appear that the Tribunal accords a high priority to meeting announced PSP project completion dates. In this context, with the announced dates for completion of three of Hunter Water's PSP projects in the first half of the price determination period, it is difficult to understand the Tribunal's agreement with the Atkins/Cardno recommendation to re-phase wastewater capital programs with significant reductions in the years 2005/06 to 2007/08.

It is noteworthy that the July 2005 Atkins/Cardno review of Hunter Water's supplementary submission still includes cuts of $21.3m (16%) from Hunter Water's wastewater capital program for 2005/06 and 2006/07. This is despite the fact that there are firm and definite commitments to meet DEC licences (see 4.2 above) and the PSP program in these years.

Hunter Water will be providing further commentary on this issue to the Tribunal in its response to the July 2005 Atkins/Cardno review of Hunter Water's supplementary submission.

4.4 Re-phasing of water and wastewater capital projects required for population growth

Atkins/Cardno also recommended a re-phasing of the water supply and wastewater capital programs because of uncertainties associated with the timing of new development. Until recently, Hunter Water has based its growth capital expenditure programs on the current Department of Infrastructure, Planning and Natural Resources (DIPNR) population estimates covering the period to 2031. DIPNR is due to release revised forecasts shortly and it is the Corporation's understanding that these projections will include a higher growth rate for the Hunter. In this context, it is clear that there is no justification for re-phasing capital investment for growth to a later date as such investment will not be stranded but, more than likely, will require augmentation at an earlier date in the future than expected previously.

Further, as discussed in section 6.4.4 of the draft determination report, Atkins/Cardno appear to have recommended deferral of growth capital expenditure essentially because of the gap between Hunter Water's proposed capital expenditure for growth and the level of direct capital contributions from developers to pay for growth capital expenditure. The draft determination reiterates the consultant's comment that, because of this gap, existing customers (ie annual charges) will fund development in the interim.

These comments expose the consultants' lack of understanding of the developer charge calculation methodology required by IPART's 1997 determination on developer charges. This methodology requires that the capital cost of growth assets is met from **both** direct contributions from developers and from the operating profit on annual charges paid by new connections. It is therefore entirely appropriate and consistent with the 1997 IPART developer charges determination that existing customers fund some of the capital costs of assets required by growth via the operating profit on annual charges. Hunter Water has recently provided the Tribunal with information showing that, for Hunter Water's current Development Servicing Plans, 42% of the cost of new wastewater assets provided for growth will be met from operating profits in accordance with the 1997 determination methodology. Approximately 66% of the cost of growth water assets will be funded similarly from operating profits.

As a result of IPART's 1997 methodology, there will always be a gap between the capital spend and cost recovered directly via developer charges. Consequently, the existence of this gap is not a justification for re-phasing the capital spend and is irrelevant to the discussion of efficient capital spending in section 6.4.4 of the draft determination report.

4.5 Unrealistic assumptions on potential capital spending efficiencies

The February 2005 Atkins/Cardno report recommended capital expenditure efficiencies increasing from 3.5% in 2005/06 to 9.0% in 2009/10. The Tribunal has adopted these recommendations as shown in Table 6.10 of the draft determination report although no rationale for accepting these efficiencies is offered.

Hunter Water finds it surprising that the Tribunal adopted the higher efficiency targets (up to 9.0%) for the later years of the price path, without comment or analysis, given recent national trends in construction costs. The Tribunal's adoption of the Atkins/Cardno recommendation is particularly baffling given the national publicity given to skill shortages and construction input costs in recent months. Hunter Water looks forward to the Tribunal striking a balance between the advice from Atkins/Cardno and the Corporation's submissions on the capital efficiencies in the final determination.

At the pricing hearings in March, both Sydney Water and Hunter Water presented evidence showing that non-dwelling construction costs are increasing at rates higher than inflation measured by the consumer price index. Australian Bureau of Statistics indexes for the year to March 2005 indicate non-dwelling construction costs have increased by 7.5% compared to 2.4% for the consumer price index[1]. Continuation of price movements of this magnitude erodes any possibility of achieving the capital expenditure efficiencies proposed by Atkins/Cardno.

Atkins/Cardno recommends capital efficiencies are cumulative and these cumulative efficiencies reach 9.0% by 2008/09. Similarly, construction cost increases may also compound over the period. As Hunter Water has previously advised, Hunter Water's entire capital works program is put to the market and subject to tender. The opportunities for efficiencies occur in planning and programming. While Hunter Water is always striving to achieve efficiencies, it is difficult to see how 9.0% program efficiency can be obtained from improving these in-house procedures.

It is also important to note that Hunter Water makes no specific provision for unforeseen capital requirements. In recent years, the Corporation has seen quite significant increases in requirements for occupational health and safety, public safety, security and counter-terrorism measures and environmental assessment. For example, in the last few years quite significant and unprecedented expenditure has been required for fencing of electrical installations and substations, securing works materials stored overnight in public places, and environmental and archaeological investigations. In the coming price determination period, there is no doubt that further unpredicted requirements will emerge.

Since lodging its supplementary submission in March, Hunter Water has seen further indications of price increases and the need for a higher level of capital expenditure over the price determination period. For example, tenders received for the upgrade of Cessnock wastewater treatment plant were tightly grouped in terms of bid prices and well

[1] There are various indicators of construction cost movements. The one used here is ABS Chain Price Index for non-dwelling construction from **ABS National Income, Expenditure and Product, Australian National Accounts – 5206.0**, Table 10. For consistency with IPART's calculation of changes in CPI, the change in the chain price index has been calculated by comparing movement for the year to March 2005 with movement for the year to March 2004.

above expectations (averaging 70% over the Corporation's estimate). The tight grouping indicates a consistent view of future cost increases across the construction industry. This consistent increase reflects the trends displayed in the Sydney Water presentation to the March hearing and trends being seen across the non-dwelling construction sector nationally.

NSW Treasury has also advised that it is observing similar increases across government capital expenditure programs and Treasury has indicated that it would be happy to provide supporting information to the Tribunal.

Higher contract prices and other adjustments to the capital program, as proposals are now more advanced, have resulted in further adjustments to the capital program since the Corporation's supplementary submission was lodged with IPART in March 2005. These adjustments are outlined in the following section of this response.

4.6 Updated capital expenditure requirements

Hunter Water's capital expenditure forecast as provided to the Corporation's Board of Directors in late May 2005 is $378.5m. This is a further increase of $27.6m on the capital requirements sought in the Corporation's March supplementary submission. The main contributors to the increase are:

- Increased budget for upgrade of Cessnock wastewater treatment works and associated pump station works ($10.8m).
- Increased allowance for upgrade of Belmont wastewater treatment works ($4m) – This increase, from $16m to $20m, reflects both more accurate estimating with completion of the detailed design and likely increases in tender prices (based on Cessnock tenders) for concrete and structural components.
- Increased allowance for water main replacements ($2.9m) based on current expenditure trends.
- Increased allowance for rehabilitation of cast iron sewer mains in the inner city areas of Newcastle ($2m) to service existing and future redevelopment.

The above details were included in the information provided to Atkins/Cardno in May 2005 in relation to its review of the Corporation's March 2005 supplementary submission. Given that these changes are based on the most recent information to hand and particularly on the most contemporary input cost data, Hunter Water believes that the Tribunal should consider a total capital program of $378.5m in its final determination.

Hunter Water is reviewing the July 2005 Atkins/Cardno report on its supplementary submission and will provide comments to IPART in the next few days, as requested.

5. CAPITAL EXPENDITURE AND ASSET MANAGEMENT OUTPUT MEASURES

The draft determination report states that agencies are to report annually to the Tribunal against the capital spending and asset management output measures recommended by Atkins/Cardno.

Hunter Water has no issue with being held accountable for providing assets to meet its regulatory requirements, customer expectations and population growth in line with its capital expenditure programs. Hunter Water accepts that the Tribunal's interest is in

ensuring that the Corporation efficiently delivers outputs in line with capital and operating expenditure proposed in its pricing submission and the prices the Tribunal has provided. However, Hunter Water also recognises that IPART already has comprehensive reporting requirements and performance measures for both price setting and as utility regulator. These existing measures should be capable of providing a good picture of utility performance.

In this context, the measures proposed in the draft determination report add to an already complex array of different reporting requirements faced by the Corporation and imposed by various agencies.

Amongst this array are a number of quite separate IPART reporting requirements including an extensive range of comprehensive annual reporting requirements under the operating licence, a set of annual pricing indicators (some of which are the same as, or similar to, the operating licence reporting measures), the pricing annual information return (AIR) and the pricing special information return (SIR). Hunter Water believes it is now time for the Tribunal to review this range of reporting requirements and streamline these requirements across both the Tribunal's utility regulation and pricing functions.

Hunter Water is disappointed to see these measures listed in the draft determination without prior discussion of their application with the Corporation. The draft determination does not explain how these measures will be used to assess whether capital program delivery is prudent or efficient or how variations in these measures will be related to variations in the capital expenditure. It also does not explain how the Corporation will be held accountable against these measures. That is, it does not explain what will be regarded as non-compliance, the penalties for not meeting these measures and how such penalties might be applied.

Specifically, there are several key questions about the intended application of the proposed measures. For example, is investment not prudent only if Hunter Water does not achieve the specified output measure or is it not prudent also if the output measure is exceeded? For example, if the output measure for replacement of water mains is 20km, will the Corporation be held accountable only if it does not deliver 20km of replaced main? If it delivers more than 20km will the Tribunal regard the additional output as not prudent expenditure and adjust the asset base accordingly?

Further how will the measures be assessed against capital expenditure forecasts? If more than 20km are delivered but at a capital cost less than proposed by the Corporation, is that efficient or not prudent? How is efficiency of spending assessed – ie is output per unit expenditure considered? Is investment still not prudent if a lower output is achieved by lower expenditure or greater output is achieved by greater expenditure?

Hunter Water's approach has not been to lock in arbitrary levels of service delivery that are implied by having objective output measures similar to those outlined in the draft determination report. For replacement of assets like water mains, the Corporation's approach is to use a continuous cost-benefit assessment and replace mains where the benefits of replacement exceed the ongoing costs of maintenance and social disruption. Where regulated standards need to be met, the Corporation uses a cost-effective analysis to establish the best way to deliver these standards with the lowest whole-of-life asset cost.

In this context, Hunter Water would prefer not to have capital expenditure output measures included in this price determination because it believes they become de facto targets and, over time, could gradually erode the rigorous ongoing analytical processes that the Corporation has in place (which focuses on best value to the community). Rather

than rely on these measures, the Corporation would prefer to work with the Tribunal on developing more meaningful assessment procedures for the next price determination. If this approach cannot be followed, Hunter Water would expect the final determination to include more detail on the application of the output measures and looks forward to further Tribunal consultation on the matter.

6. REGULATORY ASSET BASE AND RATE OF RETURN

Hunter Water supports the Tribunal's approach to increasing the rate of return on the regulatory asset base and notes that the rate of 6.1% for 2008/09 is greater than that sought by the Corporation for 2008/09 in its September 2004 submission.

However, the merit of allowing a higher rate of return is offset, in part, by the reductions in allowable future capital and not including the Corporation's full projected capital program in the regulatory asset base. This is particularly so if Hunter Water's capital spend remains as it projected in order to comply with regulatory requirements and to have infrastructure in place to meet population growth without further compromising regulatory standards. Thus the full commercial benefit of allowing a higher rate of return hinges to a degree on the inclusion of Hunter Water's forecast capital program in the regulatory asset base.

The draft determination comments that the Tribunal's preferred approach is to use the weighted average cost of capital (WACC) to determine an appropriate rate of return range. IPART's July 2004 Issues Paper covering this price determination did not specifically discuss the calculation of the appropriate WACC range for metropolitan water agencies. However, it did refer to IPART's electricity distribution pricing determination where the Tribunal had derived a 7.0% real pre-tax rate of return from the WACC applicable to NSW electricity distributors. This outcome was supported by similar decisions by the Independent Competition and Regulatory Commission (ICRC), which applied a common WACC to derive a real pre-tax rate of return of 7.0% for both ACTEW/AGL's electricity and water businesses. Hunter Water does not believe there should be a material difference in the underlying WACC used to determine rates of return for electricity and water infrastructure assets.

7. WATER AND SEWERAGE CHARGES

7.1 Water and sewer service charges

The water and sewer service charges shown in Tables 1 and 7 of the draft determination have been calculated by applying the formula:

$$(\text{Meter size})^2 \times 20\text{mm charge} / 400$$

Hunter Water has traditionally applied service charges by first calculating a "Meter Ratio" to two decimal places using the formula:

$$(\text{Meter size})^2 / 400$$

The service charge for different meter sizes is then calculated by applying the meter ratio to 20mm (or base) service charges for water and sewer.

While the two methods are mathematically the same, small differences in the final charges occur because of the rounding of the meter ratio calculated by Hunter Water. This approach has been used for many years and, in the interest of consistency in

communicating charges and billing arrangements to customers, Hunter Water would prefer to continue with this approach. Refer to Attachment 1 of this response for a list of meter ratios.

7.2 Hunter Water's location based water usage charges

The location based water usage charge for "All other locations" shown in Table 9.11 in the draft determination report differ from the charges shown in Table 3 in the draft determination. The charges shown in Table 3 of the draft determination are correct and these numbers should be shown in the report.

7.3 Raw water charges

The Tribunal has raised the issue of the cost reflectivity of raw water charges for connections on the pipeline between Chichester Dam and Hunter Water's Dungog water treatment plant. Customers supplied directly from this pipeline receive unfiltered water directly from the dam and the only treatment that it undergoes is disinfection at the dam.

Over the last few months, Hunter Water has been looking at further pricing or filtration options for the customers along this pipeline. Customers receive unfiltered water directly from Chichester Dam and now receive a discount of 7 cents per kilolitre on the usage charge. This discount is intended to reflect that filtration costs are not incurred in supplying these customers.

As a customer relations exercise, Hunter Water has proposed two alternate options in regard to the water supply arrangements for the customers on the Chichester dam pipeline upstream of Dungog water treatment plant. The Corporation has conducted a survey to find out if these customers would prefer the Corporation to install more suitable filters (Hunter Water provided basic household filters in the late 1990s) or receive a further price discount. The majority view in response to the survey would dictate our response – Hunter Water would only offer one solution, filters or further discount, to everyone..

The survey results favour a further discount. Subject to IPART's agreement, Hunter Water proposes a further discount of around 23 cents (ie a total discount of around 30 cents on the standard usage price). This price is based on the modelling for the location price to Dungog Council, which takes into account these customers do not use any of the distribution system downstream of the Dungog water treatment plant. Thus, this discount applies only where unfiltered water is supplied directly from a source and where none of the potable distribution system is used to supply the water.

Hunter Water also believes that this charge should be labelled "unfiltered water" to more accurately reflect the fact that it undergoes disinfection but not filtration. It would also make the naming consistent with similar products sold by Sydney Water and Sydney Catchment Authority.

8. WATER SALES TO GOSFORD AND WYONG COUNCILS

The draft determination provides for water sales from Hunter Water to Gosford Council and Wyong Council of around 6,000 kilolitres per day. Sale of water at this level is to be charged at the standard usage charges.

Over the past few months, there have been a number of meetings between representatives of Hunter Water, Gosford City Council and Wyong Shire Council to discuss the concept of a supply link between the two systems as a drought contingency option.

If the proposal proceeds, there are significant capital investments to be made and a range of issues to be formalised into a supply agreement.

This link would allow supply to increase to around 20,000 kilolitres per day. It is expected it would be December 2005 before the contractual details are finalised and a formal agreement signed. Completion of the link is expected late-2006/mid-2007. The volume and duration of sales will then depend on climatic conditions prevailing at the time (ie drought breaking rains).

Given the timeframe for construction to be completed and the level of uncertainty regarding potential sales, Hunter Water, Gosford Council, Wyong Council and the IPART Secretariat have agreed that, as an interim measure, approval be sought from the NSW Treasurer on a price to apply to any increased sales which may occur during the current price path period. This price would reflect the unique nature of this supply arrangement – particularly that the supply is interruptible in Hunter Water's peak demand periods and that it is reversible (ie that Hunter Water can be supplied from the central coast, if needed). IPART could then consider the longer-term sales to Gosford Council and Wyong Council as part of the 2009 price determination.

Gosford Council and Wyong Council, in meeting with Hunter Water, have supported the retention of the IPART price for sales that occur prior to the link being finalised and increased sales occurring.

9. STORMWATER CHARGES

Hunter Water is pleased that the Tribunal has agreed to phase out stormwater charges based on property value and introduce stormwater drainage charges based on property size.

It is noted that the charges determined by the Tribunal (in Table 9.17 of the draft determination report and determination Tables 10, 11 and 12) differ from Hunter Water's September 2004 proposal in that there is an additional land area band and that the charges for non-residential properties are based on a base charge multiplied by a "land area" factor for each area band.

Hunter Water is currently commissioning a new billing and customer information system to replace the current systems that have been used since the early 1980s. By letter dated 5 May, Hunter Water advised the Tribunal that, because of resources committed to transferring to the new billing system, an August or September final determination would not permit major structural price changes to be incorporated into the Corporation's billing system for a 1 November commencement date. Hunter Water, therefore, proposed that the new area based stormwater charges come into affect from 1 July 2006, not the IPART proposed commencement date of 1 November 2005.

Hunter Water has now modelled stormwater charging based on IPART's revisions to the proposed land area bands and projected revenue requirements for commencement on 1 July 2006. The price adjustments include maintaining existing charges in real terms for the period from 1 November 2005 to 30 June 2006 and revenue adjustments proposed

by IPART for the balance of the price path. Hunter Water's proposal is set out in Table 1 below.

Table 1 Proposed stormwater charges 2005/06 to 2008/09 (2005/06$ terms)

Charge Basis	Land Area Factor	Current Charge	1/11/05 to 30/6/06	1/7/06 to 30/6/07	1/7/07 to 30/6/08	1/7/08 to 30/6/09
Base Charge	Residential	42.31	43.33	47.74	52.61	57.98
Base Charge Non-residential	1	42.31	43.33	47.74	52.61	57.98
Medium non-residential 1,001 to 10,000m^2	2	n/a	n/a	95.49	105.22	115.95
Large non-residential 10,001 to 45,000m^2	14	n/a	n/a	668.40	736.56	811.66
Very large non-residential > 45,000m^2	45	n/a	n/a	2,148.44	2,367.51	2,608.92
Property value charge (cents/$AAV)		1.25	1.25	0.94	0.63	0.31

Under this proposal, property-value charges will continue, at a declining rate, until the last year of the price determination period (2008/09) and are phased out completely in 2009/10.

As the Tribunal has noted in the draft determination report, a mechanism will be in place to protect customers from price shocks by moderating the rate of increase in bills each year for non-residential customers with large and very large land areas. This mechanism will see a small number of non-residential customers in these groups, who now only pay service charges of $42.31, gradually transitioned to the service charges for the year at which the AAV charge is eliminated in 2009/10 on a straight-line basis. This is illustrated in Table 2 below. Hunter Water has previously provided the Tribunal with details of the number of customers affected by this proposal.

Table 2 Adjustment to service charges for service charge only non-residential customers with no AAV charge (2005/06$ terms)

Charge Basis	Current	1/11/05 to 30/6/06	1/7/06 to 30/6/07	1/7/07 to 30/6/08	1/7/08 to 30/6/09	1/7/09 to 30/6/10
Large non-residential 10,001 to 45,000m^2	42.31	43.33	256.10	468.88	681.65	894.43
Very large non-residential > 45,000m^2	42.31	43.33	751.23	1,459.13	2,167.04	2,874.94

10. DRAFT DETERMINATION

There are a number of issues with the draft determination and the draft determination report. As requested by IPART, Hunter Water is separately preparing commentary on the draft determination which will cover a number of definitional and interpretation issues. The Corporation will also provide a similar editorial review of the determination report. These comments will be provided separately to IPART in the next few days.

METER RATIOS

ATTACHMENT 1

Meter Size (mm)	Meter Ratio
20	1.00
25	1.56
32	2.56
40	4.00
50	6.25
80	16.00
100	25.00
150	56.25
200	100.00
250	156.25
300	225.00
350	306.25
350	306.25
375	351.56
400	400.00
500	625.00