



IPART Review of Prices for
Water Administration
Ministerial Corporation

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Hunter Water' submission



- The focus of Hunter Water's submission is on NOW's proposal to move to "fixed charges only"
 - With fixed charges based on entitlement from water sharing plans (WSP)
- Hunter Water now pays on actual annual extraction
- The proposed change to fixed charges only applied to entitlement results in:
 - significant cost increases (not covered by current HW prices)
 - charging twice for entitlements to the same water, and
 - equity concerns

Hunter Water's entitlements



- Surface water
 - Primary source of water
 - Surface water entitlement accounts for 92% of total surface and groundwater WSP entitlements
 - 2009 WSP has large increase in surface water entitlement
 - Significant impact on potential charges
- Balance of WSP entitlement is groundwater
 - NOW proposal results in almost 500% increase in groundwater charges
 - Due to change in basis for charges from actual extraction (usage) to entitlement (fixed only)

Hunter Water's entitlements



- Water sharing plan (WSP) entitlements are designed to manage and share available water
- Hunter Water has complex set of large entitlements
 - provides flexibility to extract from different sources depending on water availability and quality
- To provide flexibility, entitlements do not reflect typical annual levels of extraction
- Total annual extraction is controlled in WSP by annual extraction limits
 - known as the “long-term average annual extraction limit” - LTAAEL

Comparison of entitlements, LTAAEL and recent extractions



	Surface Water	Groundwater	Total
Entitlements under WSP	339,000 ML	29,000 ML	368,000 ML
Average extraction 2006/07 to 2009/10	51,300 ML	6,200 ML	57,500 ML
Average extraction as a proportion of entitlement	15%	21%	16%
LTAAEL under WSP			78,500ML
LTAAEL as a proportion of entitlement			21%

Entitlements and the LTAAEL

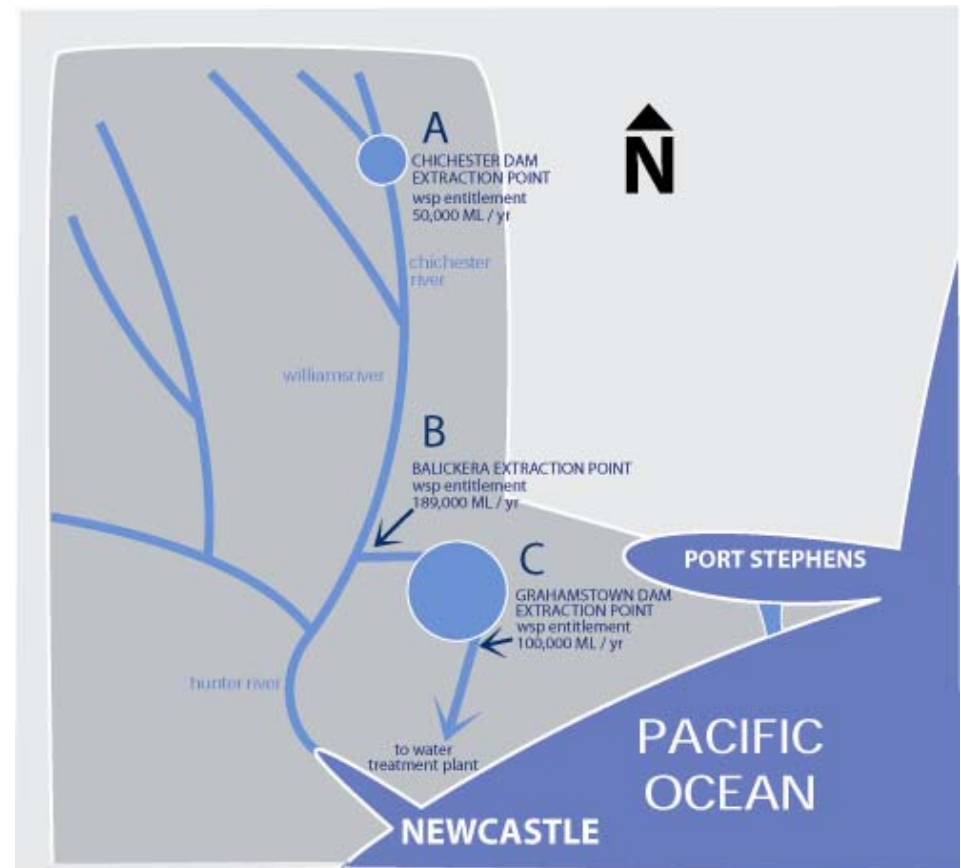


- The LTAAEL restricts Hunter Water from taking any more than 21% of its total entitlement, on average
- Puts Hunter Water in a different situation to other users, like irrigators
 - Other users can use up to 100% of their entitlement, subject to available river flows
- Results in an inequitable charging system between Hunter Water and other users

Surface water entitlements



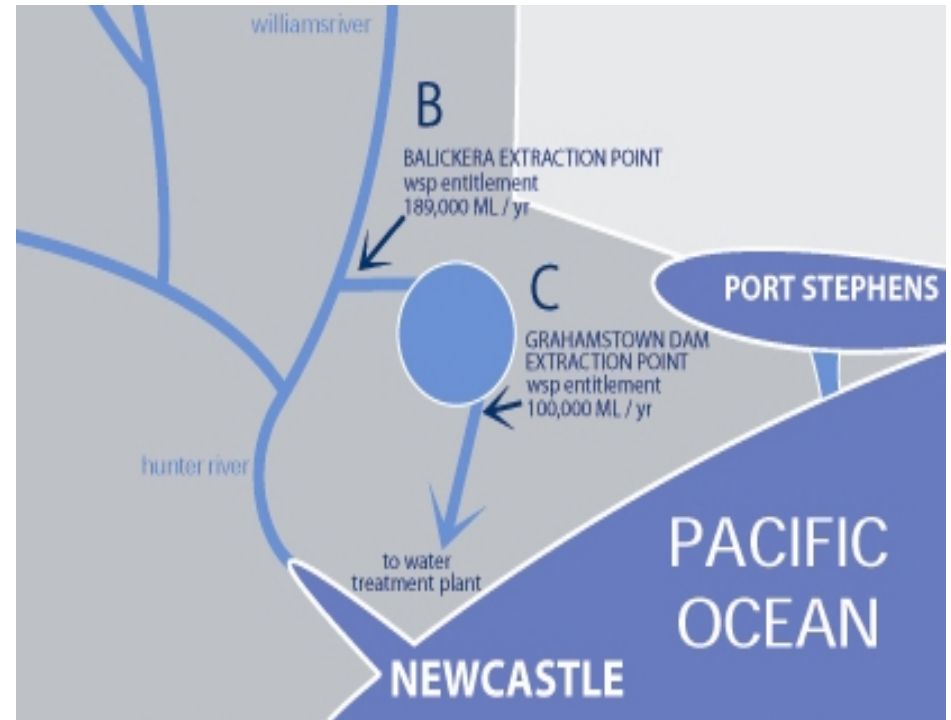
- **Hunter Water has several extraction points and large entitlements**
 - to provide flexibility to extract from different sources
- **3 entitlements**
 - **A** - Chichester Dam - *50,000 ML/yr*
 - **B** – lower Williams for pumping to Grahamstown Dam - *189,000 ML/yr*
 - **C** – for extraction from Grahamstown Dam - *100,000 ML/yr*



Lower Williams River entitlement



- Reveals a major problem with charging on entitlement
- 2 entitlements to the same water
 - To extract from the river & pump into Grahamstown at **B** and
 - To extract the **same water** from Grahamstown at **C**
- Would pay twice for *most* of the water taken from Grahamstown Dam



Impact on Hunter Water

(NOW Scenario 1)



- Hunter Water's annual bulk water charges would increase significantly for 2010/11
 - Surface water – from \$233k to \$902k
 - *\$688k (286%) increase*
 - Groundwater – from 38k to \$228k
 - *\$189k (494%) increase*
 - **Total – from \$271k to \$1.13m**
 - ***\$860k (316%) increase***

Billing Impact

\$1 million increase after 3 years



	Current price path Billed on extraction		Next price path Billed on entitlement		
	Average extraction ^a ML	HW Bill 2009/10 \$	HW Bill 2010/11 \$	HW Bill 2011/12 \$	HW Bill 2012/13 \$
Surface water	51,300	233,400	901,740	962,760	1,027,170
Year on year increase			286%	7%	7%
Groundwater	6,200	38,300	227,650	233,160	236,060
Year on year increase			494%	2%	1%
Totals	57,500	271,700	1,129,390	1,195,920	1,263,230
Year on year increase			310%	6%	6%

a. Average extraction is average annual extraction over the 2006/07 to 2009/10 price path.



Impact on Hunter Water's costs

- Result in \$860k (Scenario 1) to \$1.17m (Scenario 2) increase in annual operating expenditure
- Increase in costs not covered by HWC's prices set by IPART in 2009
- Hunter Water would expect any higher operating costs be recognised retrospectively by IPART

Entitlement share and allocation of NOW costs

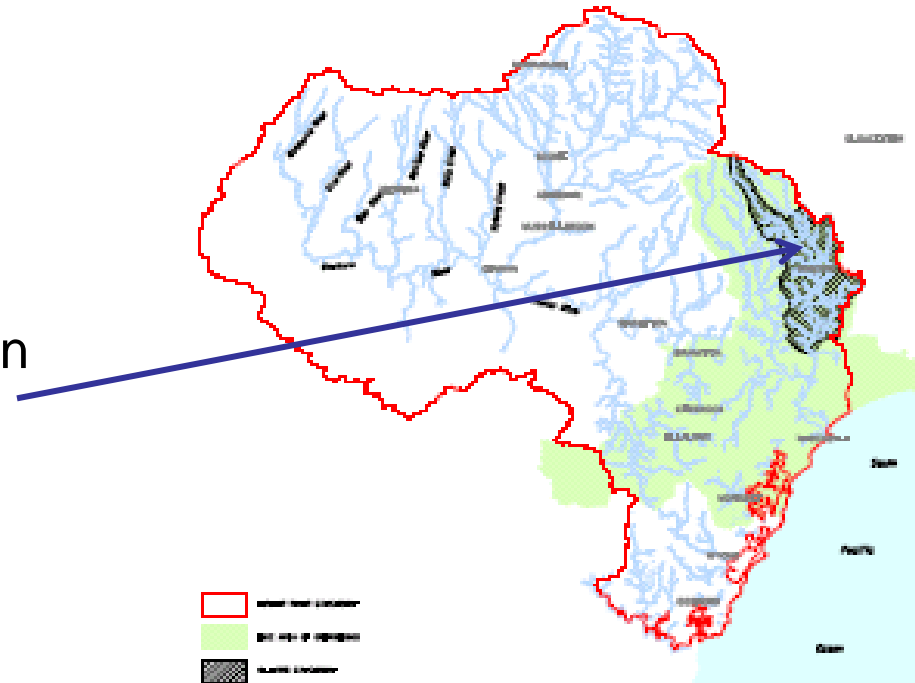


- HWC's entitlement accounts for 60% of valley-wide WSP entitlement
 - Under entitlement charging, means Hunter Water would pay for 60% of NOW's Hunter Valley costs for managing unregulated systems
- NOW's forward cost estimates do not indicate how 60% could be attributed to Hunter Water activity

Geographical scope of operations



- WSP identifies 25 unregulated water management zones
 - Hunter Water operates in only 3





Cost – Sharing Arrangements

- Hunter Water is
 - a large single user
 - offering economies in billing and consultation
 - meets full cost of flow gauging and monitoring sites (except in Paterson & Allyn valleys)
 - net provider of quality and volume data to NOW
- Licensing costs paid by Hunter Water through separate agreement
- These factors should result in lower unit costs (per ML) for NOW's dealings with Hunter Water than for other users
- NOW's forward estimates and geographical context do not demonstrate a case for Hunter Water to meet 60% of NOW's operating costs

Concluding Comments



- Fixed water charges on entitlement raise a number of concerns
 - inequitable - Hunter Water cannot access full entitlement due to LTAAEL limits
 - Unlike most other users
 - WSP entitlement structure results in paying twice for entitlement to some water
 - significantly increase Hunter Water's costs over those covered by prices
- Proposal is a departure from pricing principles applied by IPART elsewhere
 - Equitable application of charges to all users, usage based charges
- Hunter Water's preference is to continue to pay for extraction on actual annual extraction
 - More in accord with IPART's pricing principles
- If IPART supports NOW's position on 100% fixed charges
 - Hunter Water believes should be based on LTAAEL
 - LTAAEL is better match to annual extraction and overcomes the paying for two entitlements for some water.



Thank You