

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF HUNTER WATER CORPORATION'S PRICES

Tribunal Members

Dr Peter Boxall, Chairman
Mr James Cox, CEO
Mr Simon Draper, Part-Time Member

Members of the Secretariat

Ms Amanda Chadwick and Ms Rebecca Bishop

At the Novotel Newcastle Beach
5 King Street, Newcastle

On Tuesday, 13 November 2012 at 10.00am
.13/11/20121

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1 THE CHAIRMAN: Welcome, and thank you all for coming.
2 I would like to welcome you to this public hearing being
3 conducted by the Independent Pricing and Regulatory
4 Tribunal into water, sewerage and stormwater prices for
5 Hunter Water Corporation.
6
7 First of all, to introduce myself, I am Peter Boxall.
8 I am the chairman of IPART. On my left is Jim Cox, the
9 CEO and full-time member, and on my right, Simon Draper, a
10 member of the Tribunal.
11
12 IPART last conducted a review of Hunter Water
13 Corporation's prices during 2009. The pricing
14 determination made at that time covered the period from
15 17 July 2009 to 30 June 2013.
16
17 This present investigation will cover a period
18 commencing from 1 July 2013. The Tribunal has not yet
19 decided on the length of the determination period and is
20 open to suggestions in this regard. I note that Hunter
21 Water Corporation has proposed a determination period of
22 four years.
23
24 As part of this investigation, we released an issues
25 paper in June 2012 which set out key aspects of the review
26 process. The issues paper outlined some of the matters we
27 consider important to this review, our general approach to
28 price setting, the matters that the IPART Act says we must
29 take into account in conducting an investigation, and a
30 draft timetable for the review.
31
32 In the issues paper, we called for submissions from
33 Hunter Water, its customers and other stakeholders. The
34 Tribunal is very appreciative of those who have taken the
35 time and made a submission to the review. Some of those
36 stakeholders will be presenting today. All of the
37 submissions we have received will be carefully considered
38 in developing our findings and recommendations.
39
40 The Hunter Water review raises issues of significance
41 for the community and the Tribunal. Hunter Water is
42 proposing moderate real price increases, so that the bill
43 of a typical household will increase by 40 cents per week,
44 or around 2.1 per cent per year plus inflation, over a
45 four-year price path.
46
47 The main reason for these moderate price rises is

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1 Hunter Water's investment program for the next four years,
2 which is about half that which IPART determined for the
3 2009 determination. While Hunter Water has set its
4 operating and capital expenditure at a level it considers
5 sufficient to meet its regulated standards and its
6 customers' expectations, it has constrained the capital
7 program to achieve customer affordability and maintain its
8 financial viability.
9
10 It is part of our role to assess whether the costs are
11 justified and efficient and whether they should be passed
12 through to customers. We have engaged independent
13 experts and their findings will be key inputs into our
14 decision-making processes.
15
16 Since the 2009 determination, IPART has set principles
17 for water tariffs to better reflect the costs of servicing
18 different types of customers. We are pleased to see that
19 Hunter Water has considered its customers' views to inform
20 its price structure proposals, in particular the
21 differential in sewerage service charges between apartments
22 and houses. We are interested in understanding more about
23 these views. We are also interested in the basis of
24 location-based water usage charges and what the customers
25 think of this charge.
26
27 This hearing provides an opportunity for the Tribunal
28 to hear from Hunter Water, its customers and other key
29 stakeholders and to question the proposals put forward.
30 The views of all stakeholders will be a key input into our
31 decision-making processes.
32
33 The submission made by Hunter Water, and other
34 submissions and consultants' reports, are available through
35 the Tribunal's website. The transcript of today's
36 proceedings will also be published on the website in the
37 next few days.
38
39 Before we commence the proceedings today, I would like
40 to say a few words about the process for this hearing. The
41 agenda for today's hearing indicates the order in which
42 stakeholders will be presenting. Each speaker has been
43 allowed time to make a presentation. Following each
44 presentation, the IPART secretariat will ask a series of
45 questions of each stakeholder. A short period is then
46 allocated for any questions from the floor. I ask the
47 presenters to stick to the allocated time.

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1
2 Assisting the Tribunal today are Tribunal secretariat
3 members Amanda Chadwick, Director, and Rebecca Bishop,
4 Program Manager.
5
6 At the conclusion of all the scheduled presentations,
7 I will make further time available for members of the
8 public to express their views and opinions on the proposals
9 that have been put to us.
10
11 We commence today with a short presentation from
12 IPART's Rebecca Bishop and then a presentation from Hunter
13 Water. Thank you, Rebecca.
14
15 OVERVIEW
16
17 MS BISHOP: Hunter Water's price proposals for the 2013
18 determination are a moderate 2 per cent per year, plus
19 inflation. This follows annual increases of about 8 per
20 cent per year, plus inflation, from the previous two
21 determinations reflecting significant capital expenditure.
22
23 Hunter Water's proposals have been framed to achieve
24 customer affordability and financial viability for the
25 business. It has a constrained capital expenditure
26 program. In the 2009 price path, it spent \$636 million on
27 capital expenditure with the main drivers being wastewater
28 standards and growth, and it is now proposing \$325 million,
29 plus inflation, for the 2013 price path. The drivers for
30 this expenditure are \$168 million for mandatory standards,
31 \$50 million for growth and the remainder for business
32 efficiency, asset reliability, discretionary standards and
33 government directions.
34
35 For operating expenditure, a net increase of
36 \$8.3 million is proposed over the four years, or 0.4 per
37 cent per year. This comprises electricity and carbon
38 costs, which are largely uncontrollable, operating
39 expenses, wastewater and water and some labour expenses;
40 and Hunter Water has identified \$19.6 million of
41 efficiencies to offset these increases. These include
42 operating efficiencies, wastewater treatment,
43 labour efficiencies and electricity optimisation.
44
45 Turning to some issues for our review, Hunter Water
46 has consulted with customers on the key aspects of its
47 proposal as we requested in our review of customer

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1 engagement. This included prices, discretionary spending
2 and the trade-off between spending and performance.
3
4 Hunter Water performs well against IPART's operating
5 licence and its other requirements and it proposes to
6 continue to comply with those standards. It notes that its
7 restrained operating expenditure and capital expenditure
8 program will reduce headroom or over-compliance with the
9 standards.
10
11 Other issues for our review will be an appropriate
12 rate of return and how we assess the financial viability of
13 the business. We note that market rates have declined
14 since Hunter Water's submission. In light of market
15 volatility, in this and recent reviews, we are reviewing
16 aspects of our current approach to the rate of return.
17
18 In common with other regulators, we use short-term
19 averages for a number of market variables, such as
20 government bond yields and the debt premium for corporate
21 bonds, but we use long-term averages of the equity risk
22 premium. While this has served us well over many
23 determinations, we have been concerned that, in the current
24 market circumstances, this may yield a mid-point estimate
25 of the rate of return that is too low.
26
27 In the 2012 Sydney Water and Sydney Catchment
28 Authority determinations, the Tribunal used its discretion
29 to set a rate of return above the mid point but within our
30 current methodology and parameters. Hunter Water's
31 proposed rate of return is consistent with our approach in
32 those determinations. If our methodology review is not
33 completed in time for the Hunter Water determination, we
34 will use a consistent approach to the 2012 determination.
35
36 We also have a review underway on a methodology for
37 assessing the financial viability of regulated businesses
38 based on the prices that we set. Our decisions are not
39 likely to be reached in time for implementation in the
40 Hunter Water determination. If so, we will use a
41 methodology to assess financial viability that is
42 consistent with the 2012 Sydney Water and Sydney Catchment
43 Authority determinations.
44
45 These and many other issues we will be hearing about
46 today, and I now would like to invite Kim Wood, the
47 Managing Director of Hunter Water, to present on Hunter

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1 Water's price proposals.
2
3 THE CHAIRMAN: Could I ask speakers to identify
4 themselves, please, at the outset because we are taking a
5 transcript.
6
7 HUNTER WATER CORPORATION
8
9 MR WOOD: My name is Kim Wood. I am the Managing Director
10 of Hunter Water. Thank you for the opportunity to present
11 today Dr Boxall, James Cox and Simon Draper, and thank you
12 too for the interaction with the Secretariat. To my left
13 is Terry Lawler, our relatively recently appointed
14 chairman. Terry has been here for about 10 months. To my
15 right are Fiona Cushing and Nicole Holmes. Fiona and
16 Nicole are both executives in the organisation and they
17 will assist today in answering questions.
18
19 We have elected to avoid any regulatory gaining or
20 grab for cash in this regulatory submission. We have
21 listened to our customers. We have heard the regulator.
22 We have looked long and hard at what we need to do to
23 effectively meet our customers' standards. I put to you
24 today that this is not a typical pricing submission and we
25 are seeking minimal price increases.
26
27 Today I present the case for a typical 40 cents per
28 week increase for a residential bill, while ensuring that
29 Hunter Water maintains its pricing regime as one of the
30 lowest-priced urban water businesses in the country while
31 meeting our regulatory and environmental standards.
32
33 Let us talk about the strategic context that we find ourselves
34 in. We have had a long hard look at ourselves, our
35 customers' needs and the economic times we are operating
36 in, and I would like to spend some time, first of all, on
37 what I call the strategic content.
38
39 We would like to be a truly sustainable water
40 business. You will see that the word "sustainability" pops
41 up often with water utilities. What do we mean by that?
42 We do not simply mean environmental sustainability. We
43 certainly mean to be trusted and valued by the community on
44 an ongoing basis, and we have tested that relationship in
45 recent years with the Tillegra Dam debate.
46
47 We need to be financially responsible and sustainable.

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1 We cannot afford to be a drain on our customers with
2 excessive price hikes; nor can we afford to be a drain on
3 the state government by coming cap in hand asking for
4 hand-outs or privatisations. We have to have the right
5 wastewater treatment plants, the right water treatment
6 plants, the right types of pumps and storages - no more, no
7 less; not early, not late. In other words, we simply need
8 to do our job efficiently.
9
10 We need do all of this with impeccable governance. We
11 need to do the right thing and we need to do it honestly,
12 transparently and by the book. That is our vision of what
13 is involved in being a sustainable water utility. It is so
14 much more than being environmentally sustainable.
15
16 There are a number of drivers that drive the strategic
17 context that we operate in at the moment. This world has
18 changed over the last handful of years. Affordability is
19 definitely the new black. It was not that long ago that we
20 were headed pell-mell down to the point of building large
21 assets, improving our treatment and wastewater treatment
22 and investing a considerable amount of money. Now we find
23 ourselves with essentially nine strategic drivers that we
24 are responding to.
25
26 We need to ensure that we have a reliable water supply. The
27 Metropolitan Water Directorate is leading that work on
28 our behalf. We need to ensure the Lower Hunter's water
29 storages, although threatened from time to time by severe
30 droughts, survive. We need to ensure that we have an
31 affordable and reasonable cost structure.
32
33 Our need to spend capital and our operating
34 expenditure puts pressure on prices, so we need to operate
35 efficiently. We need to manage our costs and we have made
36 some hard decisions in that regard.
37
38 We are very mindful of our investment grade rating.
39 Should that rating deteriorate, the government guarantee
40 fee will increase, putting more pressure on customer
41 prices. So we need to be financially sensible and
42 sustainable, and maintaining our investment grade rating is
43 important to us.
44
45 I mentioned before the community trust has been dented
46 by the Tillegra debate. We are aware of that and certainly
47 our community polling tells us that. We need to rebuild

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1 confidence in the brand. We need to ensure that the
2 community sees us as a trusted partner and we need to move
3 on from the Tillegra situation.

4
5 With safety, we have had nine months injury free so
6 far. It is an unusually long period for this business and
7 it is a tough statistic to maintain. From time to time
8 people will be injured, but we are putting a lot of effort
9 into ensuring we have the right equipment, the right
10 training and the right practices in our business to ensure
11 that safety continues to be most important.

12
13 Many of us talk about continuous improvement and during
14 this next price path, we will put our money where our
15 mouth is. We will seek and gain ISO accreditation in terms
16 of occupational health and safety and quality, environmental
17 management. We will also seek certification under the food
18 processing standard, HACCP, and we will explore the new
19 ISO standards emerging on asset management.

20 We intend not to stagnate during this next price path.

21
22 In terms of information technology, if we spend less
23 on capital equipment, we can expect to do more in terms of
24 our maintenance and operating expenditure. We will upgrade
25 our existing ERP system not in a big-bang way, but in a
26 moderate way. We will spend a little over \$11 million
27 re-implementing and freshening up the system that we have.
28 We will have better visibility of our maintenance, better
29 understanding of our customers and better understanding of
30 what we do.

31
32 In terms of culture, we, like many other governmental
33 organisations, can sometimes fall into the trap of being
34 complacent and of expecting our customers to come to us
35 and that, in fact, we do not need to listen to them.
36 Hunter Water has a long, proud tradition of doing so much
37 better than that. We intend to maintain it and, in fact,
38 improve.

39
40 Finally, we intend to focus. We are a regulated
41 business. We intend to cut to the chase and pursue our
42 regulated water and wastewater activities only. We will
43 not go on frolics. We will not attend to a range of other
44 things, which, while they might be interesting, would incur
45 an inefficient cost. We are essentially a back-to-basics
46 business with this price path.

47

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1 In terms of price setting challenges and influence,
2 let me talk a little bit about that. In terms of setting
3 the prices, we have looked long and hard at potentially
4 these four drivers. As I said, the new black is customer
5 affordability. There is the ongoing financial position of
6 the organisation that needs to hold our investment grade
7 rating to ensure we do not put upward pressure on customer
8 prices; the need to comply with service standards,
9 regulatory requirements, environmental outcomes and
10 operating licence requirements; the need to prove to the
11 regulator that we are prudently and efficiently spending
12 operating and capital investment.

13
14 What has happened over the last 10 or so years? Our
15 debt has essentially increased from below \$100 million to
16 over \$900 million exponentially. If we continue that trend
17 we will find ourselves in the same situation as other
18 utilities in this country - in other words, with enormous
19 upward pressure on customer prices.

20
21 We have invested heavily over the last few years in
22 wastewater treatment plants and we do have a chance to draw
23 a breath and stop that exponential trend. We cannot allow
24 that debt to grow in an unmanaged way so as to put upward
25 pressure on pricing.

26
27 We had planned, in our statement of corporate intent -
28 as described last year - to have yet another large bulge in
29 the capital investment program. That is the red line. You
30 can see that while we have had some moderate years, over
31 the last handful of years we have invested heavily, as
32 I said before, primarily in wastewater treatment. You can
33 see that we are going to take the capital program to even
34 new heights.

35
36 What we are now proposing is the purple line. In
37 other words, we will harvest some of the investment of
38 recent years while still maintaining underlying capital
39 spend above our historic trend rates. We are about an
40 eighth or a ninth the size of Sydney Water. Our capital
41 program scales to about that level. We have significant
42 headroom in terms of our operating licence performance and
43 again we will harvest some of that. We will talk a bit
44 more about that later on.

45
46 Here is the operating licence performance. You can
47 see on this slide that, in the 2010/11 year, the red bar on

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1 a range of the key operating licence targets is the extra
2 room we have, the over-achievement, the headroom. While
3 I know our customers value strong operational performance,
4 we have identified that it is potentially financially
5 wasteful to continue to exceed substantially these
6 operating licensing standards.
7
8 It costs money to achieve that over-performance and in
9 fact it is money that more rightly should remain in
10 customers' pockets during the next price path. You will
11 see that we've improved that even further in the 2011/12
12 year and that shows to some degree some of the benefits of
13 capital investment. We have elected to claw back some of
14 that over-achievement to take pressure off prices during
15 the next price path.
16
17 What other factors have influenced our pricing
18 proposal? We have looked long and hard at IPART's
19 decisions and requirements recently. We have looked at
20 previous determinations. We have looked at the inclusion
21 of tax as a building block in 2013 and the implication that
22 has. We have listened long and hard to IPART's
23 requirements in terms of pricing structures. We have
24 looked at what happened in terms of Sydney Water's price
25 outcome. We attended the Central Coast hearing yesterday
26 and we have looked long and hard at the issues paper.
27
28 We have also consulted with our customers and key
29 stakeholders. We have probably undertaken a more
30 comprehensive consultation process with our customers than
31 any other utility in this State.
32
33 What about our operating costs? We are in that
34 pattern, Sydney Water, Gosford and Wyong, by far the lowest
35 cost water business. We are significantly lower than
36 Sydney Water. We are 35 per cent less than Sydney Water,
37 to be quite clear, without the same economies of scale, the
38 population density and the particular efficiencies that
39 they have with their treatment processes. We have a widely
40 diverse and dispersed treatment process, not simply lightly
41 treated ocean outfalls.
42
43 Let's be clear - we are a low-cost water utility and
44 IPART has allowed significantly less operating costs than
45 other utilities. We are not here to complain about that.
46 We are proposing an ongoing low-cost environment that will
47 allow us to continue as one of the lowest cost water

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1 utilities in urban Australia.
2
3 In terms of operating costs, we are seeking
4 essentially a very modest 1.1 per cent a year. That will
5 maintain our position as a low-cost utility. The chart
6 shows regulated operating expenditure - this is from table
7 5.0 of the submission - on the basis of a regulated opex
8 less than in line with water costs. We will get to a
9 final issue at the end of this presentation, which is the
10 late-breaking superannuation issue, which has meant a minor
11 change to the presentation we put today but it is not
12 particularly material. We will get to that as the final
13 issue.
14
15 We believe that our community consultation process is
16 the most extensive undertaken to date in the New South
17 Wales water sector. It produces some very interesting
18 outcomes. We will cover some of these today. It covered
19 issues around the pricing structure, discretionary
20 expenditure, performance against systems standards and
21 affordability. We received almost 2000 responses and that
22 made this customer consultation highly statistically
23 significant.
24
25 We think the results of that reflect - with a plus or
26 minus 3 per cent margin - the community view. How did we
27 do it? We conducted stakeholder interviews. We talked to
28 major business customers, our large customers. We ran a
29 series of focus groups. We consulted our consultative
30 forum. We sent information to all of our customers.
31 We did random surveys, we did online surveys, and for those
32 who didn't have online access, we ran a series of meetings
33 in local government libraries.
34
35 What was the feedback that we received? We did not
36 get any great sense - from 60 per cent of our customers -
37 that we were unaffordable, and that rings true. As I said
38 before, we are one of the lowest priced urban water
39 utilities in the country. However, it is clear that some
40 of our customers are under pressure and 30 per cent of our
41 customers think we aren't affordable.
42
43 There was a strong view that many of our customers
44 think the bills should be more variable, a move to variable
45 charges rather than fixed charges, and that is particularly
46 an issue with our sewer prices. 57 per cent of our
47 customers think our sewer prices are too high. 43 per cent

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1 - when asked - agree with some equalisation of the fixed
2 sewerage charge for houses and apartments. Many of our
3 customers agree with spending money on catchment protection
4 and we've put formal goals on this for the next price paths
5 exactly for that. We have not been large spenders on
6 catchment protection in recent times.

7
8 Many of our customers - 69 per cent, in fact - like
9 the fact that we are exceeding service standards. Bear in
10 mind, we sent virtually no price signals with the survey.
11 The survey was conducted before we had a strong view of
12 the range of prices we might be seeking. We certainly
13 sent strong price signals, giving our customers options
14 with price. There may have been some price in that
15 exceeding service standards issues. Our customers value
16 the outcomes we have. All of these issues on this screen
17 today have influenced, where possible, the setting of our
18 pricing proposal.

19
20 Let's cut to the chase and talk about the pricing
21 proposal itself. Essentially, in a nutshell what is our
22 pricing proposal? We favour a four-year price path. IPART
23 has asked whether a long price path with a mid-term review
24 might be better. We started this work more than 12 months
25 ago, for the price path that commences on July 1 next year. By
26 the time we get to the dying months of the next price path,
27 we would be six years away from when we commenced this
28 process. That is a long time. Interest rates are at an
29 historic low at the moment and while a mid-path review
30 might allow us to reopen that issue, undoubtedly those
31 rates will move.

32
33 We have taken the view that it is better to go for a
34 four-year price path, given where interest rates are at.
35 The fact is that the data gets quite old and the world
36 will undoubtedly change in the four-year period. We
37 understand the request may have been in the spirit it is
38 intended, which is for a lower cost regulatory environment
39 but frankly we think the risk for our community and
40 ourselves is too great to prolong the price path for more than
41 four years.

42
43 What have we done in terms of our pricing structures?
44 We have adopted IPART's 2012 price structure proposals.
45 We have a standard fixed service charge for residential
46 properties replacing the meter-size charges and we have
47 equalised and significantly improved fixed charges for

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1 small business.

2
3 Let's talk water. We have adopted a standard fixed
4 charge for both residential properties and small business.
5 We have taken our water service charge down from \$19 to \$17
6 and we'll hold it flat for the life of the price path.
7 We are adopting a modest increase in usage only and this
8 essentially addresses the community's eye for greater bill
9 control and water efficiency. Dungog sees particular
10 advantages in this next price path and we have saved them
11 \$36 per year from July 1 on by aligning their charges with
12 the rest of the Lower Hunter.

13
14 Why increase the usage charge? Why not the fixed
15 charge? As I said before, our customer research tells us
16 that 75 per cent of our customers want control. The water
17 usage charge is the charge that gets in the media. It is
18 the charge that customers are aware of and it is the thing
19 that we try and maintain. In addition, it is an issue that
20 has been addressed with water tanks at home, with more
21 efficient shower heads, more prudent use of water for
22 washing cars and lawns, and it is the charge that gets the
23 media attention, as I said.

24
25 If we maintained the current real usage charge, the
26 controllable average of our bill would drop from 39 to
27 36 percent. Our proposed price would keep the controllable
28 portion at 39 per cent.

29
30 What about the sewer? We need to emphasise that there
31 is no doubt that our community does not really understand
32 why a fixed sewer charge is so high. The issue that we
33 face with wastewater treatment is transport and the
34 treatment and maintenance of wastewater is where the costs
35 are. It is not the amount of water that goes down the
36 basin or toilet that drives the cost. As I said, it is
37 essentially maintenance and it is transport and treatment.
38 They are by far the bulk of our charges. To go to a fully
39 variable sewer charge is very difficult.

40
41 We will adopt a standard fixed charge for residential
42 properties and small businesses. We will phase in flats
43 and unit service charges at 75 per cent of the house
44 charge. Why do that? That reflects, essentially, the
45 lower capital investment to service individual apartments.
46 We are reducing the Clarence Town sewer levy to match the
47 final cost of the scheme. We are reducing it to \$43 in

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1 2013/14. We can see no reason to continue that charge.
2
3 Stormwater charges are going down during this price
4 path and that reflects essentially a lower capital
5 investment program during this next four years. We have
6 adopted a lower stormwater charge for strata units and
7 that's an equity issue that provides consistency with the
8 structure adopted by IPART in 2012/13.
9
10 Let's talk impacts on customers. What do these
11 proposed changes mean for a customer? For a typical
12 residential bill it is a 40 cents a week average increase
13 before inflation. In other words, that reflects a \$26.20
14 increase in an overall bill in 2012/13, 2013/14. It is a
15 very modest increase: it is 2.1 per cent. Essentially, we
16 don't have lumpy or peaking years in that four-year period.
17 It is essentially the same. It is 40 cents a week in
18 2012/13 right across the life of the price path.
19
20 A typical apartment - a little higher. As I said
21 before, as we move some of the charges up we get to a
22 typical increase before inflation of 60 cents a week over
23 the full-year price path period. A pensioner - 25 cents a
24 week in terms of the average movement. The bill now is
25 \$11.70 a week. It goes to \$12 a week next year; year four,
26 \$12.70. A pensioner bill remains the lowest bill we have.
27 At the moment, typically it is \$608.40 per year and next
28 year it will move to \$620.
29
30 What are the relativities like between the various
31 groups? You can see there the blue line is the stand-alone
32 house. You can see that a Dungog stand-alone house in
33 2012/13 is high and that normalises from next year on
34 through the life of the price path. You can see strata
35 title apartments are moving up more aggressively than the
36 other classes in the period of the price path and a
37 pensioner house is just above \$600 pretty much during the
38 life of the price path.
39
40 The usage levels of a house are 185 kilolitres, an
41 apartment 125 kilolitres and a pensioner 140 kilolitres.
42 We are not playing tricks with numbers. We think those are
43 reasonable usage amounts for those classes of customers.
44 Just for interest sake, how do we compare with the
45 Central Coast proposals? Significantly less. How do we
46 compare nationally? You will see the blue bar, the
47 left-most bar, each year is Hunter Water. The next bar is

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1 Sydney Water. Sydney Water's current pricing determination
2 expires in 2015/16. We do not have it in the subsequent
3 year, we have a pink bar that guesstimates that, but you
4 can see we essentially achieve parity with Sydney Water in
5 2015/16.
6
7 It should be noted that we are well below Yarra Valley
8 in Melbourne, Geelong, Barwon Water and Canberra -
9 significantly lower. You can see the advantages that
10 customers with a low-cost water utility like Hunter Water
11 enjoy during the life of the price path.
12
13 Non-residential customer bills - this is a busy slide
14 and I apologise for that. It gives a sense of are we just
15 essentially shifting the pain from pensioners, households
16 and strata title units to other classes of customers? You
17 will see there are some swings and roundabouts there but by
18 and large we are proposing modest increases at best and
19 typically some reductions.
20
21 There is an exception, with around 60 non-residential
22 customers with 20mm meters and a low discharge factor.
23 They now pay a low service charge; for instance, the
24 nursery on the bottom line. The IPART proposal increases
25 their service charge to equal that of a house and the house
26 service charge becomes a minimum charge for these
27 customers, so their prices move something like 6 per cent.
28
29 By and large, there are either reductions or very,
30 very modest increases, nothing like the 30-plus per cent
31 increase that the Melbourne retailers will see in the next
32 12 months and nothing like the increases that have been
33 required to pay for desal in Western Australia and some of
34 the prices in South Australia and other places.
35
36 What about customers? There is no doubt some
37 customers from time to time will find it difficult to pay
38 their bills. We have a range of measures that will assist
39 customers in that situation. The first measure is not
40 ours. It is the New South Wales government rebate to
41 concession card holders. We have the water usage bill
42 concession for customers with special needs, like kidney
43 dialysis. We have a range of usage bill concessions for
44 bill management: time-to-pay, instalment plans, budget
45 plans. We have been doing some work with the third party.
46 We expect to populate those even more extensively than they
47 are in the next few months.

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1
2 We have payment assistance vouchers distributed
3 through welfare agencies. We have provided funding for
4 a Hunter no interest loans scheme to allow for washing
5 machines to be replaced with much more efficient washing
6 machines. We have put a lot of time and effort into
7 water-efficiency measure programs - in other words,
8 shower-head replacements and things like that.
9
10 What about Centrepay? We have been one of the few
11 utilities in the country to not to have Centrepay. We will
12 have Centrepay in place from July 2013. It is a key part of the
13 operation in terms of customer affordability. We agree
14 with the position previously advocated by PIAC in
15 Gosford-Wyong. The only thing I can say is that I am sorry
16 we are coming late to this one, but we are there.
17
18 I turn now to issues that have come up from some of
19 the public submissions that have influenced us. The
20 pensioner rebate has been commented on extensively by a
21 range of stakeholders. Some submissions suggest the
22 linking of rebates to bills would not continue. This slide
23 is intended to address that concern. The rebate is linked
24 to the overall change in the bill. It is adjusted
25 annually. It does take account of charges in both fixed
26 and variable charges.
27
28 By the way, pensioners will also benefit from the
29 waiver of the environmental improvement levy to the tune of
30 about \$36 going forward and the pensioner rebate will,
31 in fact, continue to be linked to annual bill changes in
32 the next price path. Those figures are established.
33
34 Tillegra - we need to discuss this issue. It has been
35 such a hot potato in our world over the last handful of
36 years. Have Tillegra charges been passed through to
37 customers? No. The \$25 million pre-construction costs
38 have been written off and not passed on. The Tillegra land
39 holding costs are not incorporated in the regulatory asset
40 base and there's no recovery of those costs through
41 customer pricing.
42
43 AECOM have been appointed to undertake a land-use
44 strategy and while this issue has been a matter of some
45 debate in the media, including Dungog shire, we intend to
46 work with them closely and find the best possible use and
47 the best possible stewards of that land while that land is

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1 in our control. We will consult and we will engage and we
2 will generally try to find the best possible outcome for
3 stakeholders.
4

5 The Lower Hunter Water Plan: I mentioned earlier on
6 in the presentation, water sustainability. The
7 Metropolitan Water Directorate has had full carriage of
8 that plan. Hunter Water may be engaged from time to time
9 to do some of the technical analysis or engage consultants
10 to do that, but we are firmly a taker of the work that the
11 Metro Water Directorate is doing. All options are on the
12 table and have been put on the table before by the Minister
13 and others, except for Tillegra Dam. The Metro Water
14 Directorate commenced that process and stakeholder
15 consultation is well underway. I think it was announced in
16 the local press by the Minister in the last several days.
17 It is intended that there will be an outcome of that by the
18 end of the next calendar year.
19

20 Finally - and I am getting towards the final slide -
21 is "New Issues". I indicated before that we have a single
22 late-breaking issue since the price submission was
23 submitted. The superannuation trustee advised that
24 additional contributions may be required from July 2013.
25

26 While there are some negotiations going on as to the
27 time frame to fully fund the superannuation scheme, it
28 would appear it has the ability to influence the opex - the
29 operating expenditure - adversely by between \$2.5 million
30 per year and \$5.2 million per year. That reflects either a
31 five or ten-year time frame. We would like that additional
32 opex to be factored into the pricing consideration. It
33 produces a four cent to five cent a week impact on a
34 customer's bill.
35

36 I would like to put to you that it is not material,
37 but I know full well that there are some of our customer
38 classes where every dollar and every fraction of a dollar
39 is important, so I will not be silly enough to say that it
40 does not matter. It will impact some customers. It is a
41 small impact. We intend to engage IPART immediately on
42 this issue.
43

44 Thank you for your attention. That concludes the
45 formal presentation part and we are more than happy to take
46 questions.
47

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1 THE CHAIRMAN: Thank you very much, Kim, for that very
2 comprehensive outline.

3
4 Are there any questions from Rebecca and Amanda?

5
6 MS BISHOP: You said that your capital expenditure program
7 is based on maintaining your performance against current
8 standards. If conditions change from those on which you
9 have based your capital program, what scope for
10 re-prioritising does Hunter Water have to meet the licence
11 standard and your other regulatory requirement? What are
12 the risks of over-expenditure given that your licence will
13 not change until June 2017?

14
15 MR WOOD: That is a fair question. I think that is a
16 potential risk for us. Let me answer it in a couple of
17 ways. One is that we have invested substantially in
18 wastewater treatment plants over the last handful of years
19 and it is my strong belief that that development should be
20 harvested over the next several years. We do not need to
21 continue a reasonably high level of investment in the next
22 period.

23
24 We are investing heavily during this next price path
25 on asset management systems as part of our Ellipse ERP
26 upgrade, which will give us enormously improved visibility
27 in the performance of our assets so we can better target
28 our maintenance spend. It should mitigate any reduced
29 investment. If there is something that we haven't foreseen
30 and we need to re-prioritise, the answer is we will.
31 We are talking about a four-year time cycle or time frame.
32 It is essentially a very long-lived asset typically. While
33 there may be some short-term risk to the organisation that
34 requires itself to re-prioritise or spend ahead of the
35 budget in capital programming, in the context of these
36 long-lived assets it is manageable.

37
38 MS BISHOP: Regarding your operating expenditure, we note
39 that underpinning your program are specific assumptions
40 regarding relatively stable water sales, no future real
41 price increases in inputs and no changes to regulatory
42 requirements. Would you outline the impact of any changes
43 to these assumptions on your operating costs?

44
45 MS CUSHING: With regard to the operating cost
46 assumptions, there are naturally a number of assumptions
47 that underpin the operating costs, not the least of which

1 are the assumptions with regard to the level of
2 efficiencies that we have already applied to ourselves that
3 we need to achieve.

4
5 The simple answer to the question is quite similar to
6 the capex response that Kim has just given whereby the
7 business has the ability to adapt and re-prioritise
8 accordingly. What we will be doing is basically looking at
9 the risks very, very closely and the likelihood associated
10 with any of those risks occurring and then balance the
11 expenditure accordingly, because we are determined to live
12 within the operating costs that IPART determined.

13
14 MS CHADWICK: In relation to Tillegra Dam, the question
15 has been put by a number of stakeholders about that past
16 expenditure. For the record, could you identify how much
17 capex was spent in Tillegra since 1 July 2009, so over this
18 price period, and how it is you've excluded that so that
19 people can see what's happened?

20
21 MS CUSHING: Certainly. As Kim mentioned in the
22 presentation, we did write off approximately \$25 million of
23 pre-construction costs in the 2010/11 financial year. In
24 2009/10 and 2010/11, we actually spent \$13.9 million on
25 Tillegra and related capital expenditure. \$5.4 million of
26 that was the land purchases and \$8.6 million related to the
27 pre-construction costs.

28
29 As I have already alluded to, the \$25 million that was
30 written off has been totally returned. Basically, the cost
31 of that has been borne by the New South Wales government
32 and Hunter Water itself. That was clearly written off in
33 the P&L and not included in the regulated operating costs
34 in any way.

35
36 In addition, in February 2011 Hunter Water commenced
37 refunding the amounts that had been charged to customers
38 for the first two years of the price path with regard to
39 Tillegra and related expenditure. Those amounts of refunds
40 were determined by IPART and, through that process as well,
41 the regulated asset base was revised to exclude all of
42 the Tillegra land costs, so basically the write-offs
43 have occurred and all of the costs have been borne by the
44 New South Wales government and/or Hunter Water.
45 Customers have been fully refunded and there are no charges
46 going through for customers at this stage for any of that
47 expenditure.

1
2 Any of the costs associated with or that have been
3 incurred by Hunter Water as well in this current price path
4 in operating costs, for land maintenance and the
5 development of the land use strategy that Kim mentioned,
6 have not been recovered from Hunter Water customers and
7 will not be. Again, that has been incurred through
8 operating costs by Hunter Water and we are not making
9 any claim for the recovery of those costs from the
10 customers.
11
12 MS CHADWICK: Thank you for putting all of that on the
13 record.
14
15 The next question is about your demand forecasts. We
16 have recently determined Sydney Water's prices and as part
17 of that the demand forecasts that they put forward equate
18 to about a 2 per cent increase over four years, whereas
19 Hunter Water in the comparable period is about point 8.
20 What level of confidence do you have about your sales
21 forecasts and what sensitivity testing or other analysis
22 underpin that?
23
24 MS HOLMES: We have recently prepared a new demand
25 forecast and that demand forecast has been based on work
26 undertaken by the National Water Commission and also the
27 Water Services Association of Australia. We have had that
28 demand forecast reviewed by the Institute of Sustainable
29 Futures and we have incorporated those suggestions into the
30 revised demand model.
31
32 The demand model has also been made available to the
33 Metropolitan Water Directorate to help inform the Lower
34 Hunter water plan process. We will undertake sensitivity
35 analyses as a part of an ongoing review of the modelling.
36 In terms of the differences between the Hunter Water
37 model and the Sydney Water Corporation model,
38 I think that, while we have not looked at that in depth,
39 there are a number of issues that we have been able to
40 identify that could be a result and result in different
41 demand forecasts.
42
43 We now use an end-use model as opposed to Sydney Water
44 using an econometric model. The pure differences in the
45 model themselves are likely to result in some changes. The
46 demographic make-up of Sydney compared with Newcastle
47 will certainly have an influence on the forecasts that are

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1 used. As most of us are aware, Sydney Water is also coming
2 off the back of a long period of restrictions and there is
3 the potential that Sydney Water might see some increase in
4 water usage going forward, and again that is predicted.
5
6 THE CHAIRMAN: On the question of superannuation, is that
7 a defined benefit scheme?
8
9 MS CUSHING: Yes.
10
11 THE CHAIRMAN: Was there a recent actuarial review that
12 prompted the trustees to --
13
14 MR WOOD: In fact, we identified that we had an
15 underfunded situation early in the year and approached the
16 superannuation trustees. The early advice - before the
17 pricing submission was finalised - was that we were on the
18 radar screen. That was the advice that was given. It
19 would appear we got on the radar screen later in the year
20 and there are three defined benefits schemes we participate
21 in. It would appear that they're reasonably underfunded
22 and it is probably in some part due to the current interest
23 rates as much as anything else.
24
25 The superannuation trustees have come back looking for
26 a five-year funding arrangement. It is a fully-funded
27 scheme, although liabilities do not fully crystallise until
28 2030. We are currently in negotiations with them to see if
29 we can negotiate a longer funding scheme that allows for
30 interest rate movements in years that may in fact improve
31 the lack of funding of the scheme. I suspect that we are
32 not Robinson Crusoe. Nevertheless, it is an issue we face
33 and it is an issue we will have to address.
34
35 THE CHAIRMAN: Are those defined benefit schemes closed?
36
37 MR WOOD: Yes.
38
39 THE CHAIRMAN: In the event that in the future you find
40 yourself over-funded because of a change in the interest
41 rates, and what have you, no doubt you will come back with
42 a reverse proposition.
43
44 MR WOOD: The situation in another state that I have been
45 involved in is essentially you take a funding holiday for a
46 period until the funding comes within the band width of the
47 superannuation trustees.

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1
2 MR COX: Listening to your presentation, it seemed to me,
3 by comparison with other water utilities, that you are
4 prepared to accept a greater risk - I would not say a great
5 risk - of failure of the operating licence standards in
6 return for lower costs and lower prices. There is a
7 trade-off here, if you like, between meeting the standards
8 and costs of the customers. How have you thought about
9 this issue and how have you persuaded yourself that you
10 have struck the right balance here? We face this with a
11 number of water utilities.
12
13 MR WOOD: I think it is a fair question. People do not
14 like risk, there is no doubt about that, I am not a fan
15 of risk and my board is certainly not a fan of risk, but
16 we have weighed up the trade-off between hiking prices
17 to avoid any responsibility or risk and just to give
18 ourselves plenty of headroom, or to take a position of a
19 higher level of risk - not a high level of risk, but a
20 higher level of risk - in accepting that while life may not
21 be comfortable for the next four years, I think we are
22 fairly exchanging risk for reasonable price outcomes for
23 our customers.
24
25 We strongly believe that we are investing sufficiently
26 in the asset base or that we will harvest some of the
27 capital expenditure of prior years and that our operating
28 licence achievement is sufficiently ahead of where it needs
29 to be. My argument is that we are operating financially
30 and efficiently with our current capital program,
31 essentially, at the end of the day, with improvement of
32 systems, squeezing some more productivity out of our
33 people, if we can, with better systems and tools and
34 management.
35
36 I think it is fair that we share some of the risks
37 with our customers and that is the position we have taken.
38 So rather than coming in with a large ask and going through
39 the regulatory tap-dance, we have taken a long, hard look
40 at what we actually need. The numbers that you see
41 presented to you reflect that.
42
43 MS CHADWICK: I hear your response to the suggestion of a
44 longer price path. I think that is one of the things that
45 we would need to turn our minds to in responding to a
46 moderate price proposal and the tools that we have
47 available to us. Are there other changes to the regulatory

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1 process that you would suggest we contemplate, for example,
2 linking the delivery of all your output measurements to
3 financial incentives such as what the UK regulators
4 contemplate?
5
6 MR WOOD: Amanda, that is a fair question. We appreciate
7 the offer of IPART being open to perhaps some alternative
8 ways to --
9
10 MS CHADWICK: Incentivise.
11
12 MR WOOD: We hear that, but I guess with regard to what
13 we are asking for today, we are not here asking for
14 anything but a fair go for what we have offered. As I have
15 said before, we have essentially adopted zero regulatory
16 game in this determination. An opex efficiency cut or a
17 significant, or even an insignificant, capital cut would
18 cause our risk profile to increase more than we would be
19 comfortable with. All we would ask for today is a fair
20 hearing.
21
22 THE CHAIRMAN: Thank you, Kim.
23
24 Are there any questions or comments from the floor.
25 We have a roving microphone. Are there any questions for
26 Hunter Water? No questions. Thank you very much.
27
28 MR WOOD: Thank you very much.
29
30 THE CHAIRMAN: The next group on the agenda is the No
31 Tillegra Dam Group.
32
33 NO TILLEGRA DAM GROUP
34
35 MS PASENOW: Good morning. My name is Carol Pasenow,
36 from the No Tillegra Dam Group, and this is my colleague
37 Linda Bowden. We thank you for the opportunity to present
38 today.
39
40 No Tillegra Dam Group, as you are probably all aware,
41 is a community-based group that spent four years fighting
42 the unnecessary and expensive Tillegra Dam proposal. For
43 the last two years, No Tillegra Dam Group has attempted to
44 pressure Hunter Water into implementing a government
45 directive to sell all Hunter Water owned land within the
46 Tillegra precinct for the benefit of Hunter ratepayers.
47

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1 Our presentation therefore will focus on the Tillegra
2 Dam landholdings, as noted in IPART issues paper, page 37,
3 and referred to by Hunter Water in its submission to IPART.
4
5 Having said that, we will also discuss the need for
6 efficient management of existing infrastructure and
7 systems; an emphasis on water conservation demand
8 management and recycling; and a focus on user pay and
9 maintaining water bills at a minimum for Hunter ratepayers.
10
11 Firstly, we will touch on the Tillegra landholdings
12 and the existing use of existing infrastructure and
13 systems. Some of what I will speak on this morning, has
14 been addressed today by Hunter Water, but I will include it
15 in our presentation.
16
17 All political parties, including the present
18 government, have given a commitment not to build Tillegra
19 Dam. An assurance has been given by the New South Wales
20 government to sell all land in the Tillegra precinct, and
21 this amounts to approximately 6,000 hectares. Hunter Water
22 paid over \$70 million for this land. If that land is sold,
23 the income could be used to increase water efficiency
24 methods and to reduce water bills in the Hunter.
25
26 Since the rejection of Tillegra Dam in November 2010,
27 Hunter Water has demonstrated clear reluctance to sell the
28 land. It has only recently, and after much pressure,
29 called for tenders for the development of a land-use
30 strategy for Tillegra, stating that this process is
31 expected to take 12 months and will include stakeholder
32 participation.
33
34 No Tillegra Dam Group has critical concerns regarding
35 the method Hunter Water has embarked on, including the fact
36 that stakeholders have not been consulted, as stated by the
37 corporation.
38
39 Because the Tillegra lands have a great social,
40 economic and environmental significance to the future of
41 Dungog and the local government area, we believe that
42 special measures are now required for the disposal of these
43 lands. This, we believe, should include a whole of
44 government strategy with participation from relevant
45 stakeholders.
46
47 As you are all aware, the Tillegra Dam was a political

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1 decision made by the New South Wales government at the
2 time. Therefore, we believe that any expenses relating to
3 the project, including the \$25 million Tillegra Dam expenses
4 outlined in the 2010/11, accounts should not be passed
5 on to ratepayers. As I said, Mr Wood has touched on that
6 this morning and we welcome Hunter Water's commitment
7 that it is not being passed objected to ratepayers.
8
9 We were also advised that the Tillegra Dam lands are
10 in Hunter Water's regulatory asset base. We believe that
11 any cost, including losses associated with land sales, land
12 management or the land use strategy, should not be borne by
13 ratepayers, and this cost was set at \$0.4 million.
14
15 No Tillegra Dam Group also notes that, in Hunter
16 Water's 2010/11 annual report, land not currently used
17 but fully required for future integral needs comprises
18 55 properties valued at over \$75 million. If this is
19 referring to the Tillegra landholdings, it is contrary to
20 government policy that these lands should be sold.
21
22 No Tillegra Dam Group therefore recommends that Hunter
23 Water be directed to sell all lands in the Tillegra
24 precinct and any profits from the sale of Tillegra lands be
25 spent on water efficiency methods, maintaining
26 infrastructure and reducing water bills. We also recommend
27 that moneys from the sale of these lands be spent on
28 assisting with the economic recovery of the Dungog shire in
29 the wake of the Tillegra Dam debacle.
30
31 Advice from independent water planners during the
32 Tillegra Dam proposal demonstrated that no new dam was
33 needed in the Hunter. No Tillegra Dam Group therefore also
34 recommends that all lands in the Johnson Creek area, put
35 aside by Hunter Water for a future dam, be sold and that
36 moneys also be spent on maintenance, efficiency methods and
37 reducing water bills.
38
39 Hunter Water's submission makes reference to the
40 development of a new Lower Hunter water plan coordinated
41 by Metro Water and the Department of Finance and Services
42 with input from the corporation and consultation with the
43 Hunter community. No Tillegra Dam Group notes that there
44 has been no consultation to date with the Hunter community
45 regarding the new Lower Hunter water plan and what the
46 community is prepared to pay for, as described in the
47 National Urban Water Plan principles.

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1
2 Tillegra Dam would have provided a level of water
3 security that was far beyond what was necessary for the
4 water needs of the Lower Hunter. The level of water
5 security was at least 50 times that typical of the water
6 supply of other Australian water providers. It is
7 important that the community understands that examining the
8 options for a new water plan does mean that we need new
9 large infrastructure proposals.
10
11 During the Tillegra Dam proposal, Hunter Water
12 unnecessarily reduced its estimate of available supply
13 for the existing supply system from 90 gegalitres to
14 67 gegalitres. As well, demand forecasts of population
15 growth were overestimated. Hunter Water consumption is
16 now trending downwards and even with population figures,
17 Hunter Water's planning documents demonstrate that a new
18 large supply option was not necessary.
19
20 Hunter Water notes in its submission that it is now using
21 a new model to estimate supply and demand. These new
22 supply/demand figures now need to be made available for
23 public scrutiny. If these are as anticipated by
24 environmental community groups, there will be no need for
25 new dams in the Hunter that would prove costly to
26 ratepayers.
27
28 No Tillegra Dam Group recommends, therefore, a focus
29 on the efficient use of existing Hunter Water
30 infrastructure and systems which would preclude the need
31 for expensive new dams.
32
33 Secondly today, I would like to address water conservation,
34 demand management and recycling. The current demand
35 management and water conservation measures described
36 by Hunter Water in its IPART submission are poor when
37 compared with others implemented across Sydney and the
38 Central Coast. There is now a growing suite of
39 cost-effective water conservation and demand management
40 programs currently in place across Australia.
41
42 Programs with the potential to be implemented or
43 significantly expanded in the Hunter would include:
44
45 Water saving rules or Waterwise rules such as those
46 modelled in Sydney, Melbourne or Adelaide;
47 Water conservation audits and retrofits;

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1 Washing machine rebates;
2 Outdoor water-saving appliances;
3 Mandatory water-saving action plans for high users in
4 industry;
5 Business water-saving programs and partnerships; and
6 Rainwater tank rebates.
7
8 No Tillegra Dam Group considers that water-saving
9 rules should be introduced to the Hunter as a demand
10 management measure. This would negate the need for more
11 expensive options in the future. We also recommend
12 adjusting the security of supply criteria to ensure that
13 higher level restrictions are introduced at higher storage
14 levels. This is a more sustainable and economically
15 responsible strategy than attempting to drought-proof
16 security supply where high level restrictions are never or
17 rarely introduced.
18
19 Gosford and Wyong councils' WaterPlan 2050 strategy
20 notes.
21
22 ... in most instances, demand management
23 actions have proven to be more cost
24 effective than increasing supply.
25
26 No Tillegra Dam Group therefore recommends that other
27 efficiency methods be investigated. For example,
28 industries should be encouraged and given incentives to
29 undertake water-conservation methods or water-saving plans.
30 Providing water at a reduced cost to industries undermines
31 any encouragement for recycling.
32
33 Whilst Hunter Water's proposed capital expenditure on
34 the development of recycled water is welcome, all upgrades
35 to wastewater treatment facilities should have a
36 sustainable program in place to manage sewerage sludge.
37
38 Hunter Water has a poor record nationally in
39 recycling. The most recent National Water Commission
40 report indicates that corporation's rate of recycling
41 effluent has not improved but has actually decreased, still
42 ranking way behind many other water utilities across
43 Australia.
44
45 The use of wastewater should be increased to match
46 national standards. Undertaking investigation of customer
47 sewerage discharges and introducing rebates would be less

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1 expensive and would allow a better result for the
2 environment. If Hunter Water Corporation matched national
3 best practice, it could boost water security for households
4 and small businesses by taking industrial customers off our
5 drinking water supply.
6
7 Hunter Water should also be encouraging
8 water-efficient appliances and encouraging attempts to
9 control water usage with financial incentives as well as
10 encouraging the use of stormwater capture with retention
11 basins and water tanks. This will allow developers to
12 embrace water-sensitive urban design measures.
13
14 No Tillegra Dam Group considers that a greater focus
15 on recycling effluent and demand management and water
16 conservation strategies would negate the need for any new
17 large infrastructure projects.
18
19 The last topic I will touch on today is a focus on
20 user pay, customer control water level bills and management
21 of water bills.
22
23 We strongly urge IPART to consider the importance of
24 user pay. Many industries in the Hunter continue to use
25 potable water supplied by Hunter Water Corporation.
26 Therefore we oppose location-based prices which deliver
27 discounts to large industries and discourage the practice
28 of recycled water for industrial use.
29
30 Reducing prices for large users diminishes the
31 conservation message conveyed by usage charges and
32 undermines demand management. It also discourages large
33 volume users to adopt effluent reuse. The practice where
34 industries use potable water should be actively
35 discouraged. Presently there is no requirement for
36 industries to implement water-saving plans, as is the case
37 in many other regions.
38
39 We also support increased capital expenditure on
40 recycled water, infrastructure and continued upgrades to
41 wastewater treatment facilities.
42
43 Our group considers important a focus on user pay and
44 maintaining water prices at a minimum for ratepayers in the
45 Hunter particularly for low income earners and those
46 suffering from hardship.
47

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1 Hunter Water Corporation's submission recommends
2 higher fixed prices. No Tillegra Dam Group considers that
3 Hunter Water customers should have greater control over
4 their water bills; therefore, it supports reducing the
5 levels of fixed prices for a greater emphasis on usage
6 charges.
7
8 Increasing usage charges while reducing fixed charges
9 would provide stronger incentives for customers to reduce
10 consumption and give them more control over their water
11 bills. This would also encourage customers to invest in
12 rainwater tanks or water-efficient appliances.
13
14 Hunter Water's consultation of customers demonstrated
15 that approximately 75 per cent of its customers wanted more
16 control over their water bills through water usage.
17
18 In summary, No Tillegra Dam Group is firmly against
19 any price increases for water bills in the Hunter. We
20 believe Hunter Water Corporation should be more focused
21 on becoming more efficient with current practices and
22 infrastructure that are in place, and we believe that this
23 strategy would negate the need for any new infrastructure
24 proposals in the Hunter and keep water bills at a minimum.
25 Thank you.
26
27 THE CHAIRMAN: Thank you very much, Carol.
28
29 Rebecca or Amanda, do you have any questions?
30
31 MS BISHOP: You have already commented on Hunter
32 Water's information on the Tillegra cost method. Do you have
33 any further comments on that?
34
35 MS PASENOW: We welcome their input today. We were of
36 the belief that it was on the regulatory asset base - that is
37 what we had been advised - but we welcome that the
38 ratepayers are not wearing the cost of the Tillegra Dam.
39
40 MS BISHOP: You have outlined a number of water
41 conservation and demand management strategies that are in
42 use across Australia and you have outlined their benefits.
43 Which of them do you think is the most important for Hunter
44 Water?
45
46 MS BOWDEN: There are probably --
47

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1 THE CHAIRMAN: Can you identify yourself, please.
2
3 MS BOWDEN: My name is Linda Bowden. There are
4 probably a number of demand management water
5 conservation issues. I think implementing water-saving rules is
6 a really important start.
7
8 MS PASENOW: And maybe restrictions brought in over
9 higher dam levels.
10
11 MS CHADWICK: I have one last comment for clarification:
12 Depending on the outcomes of the land use strategy, if the
13 decision is that the land will be sold, the general
14 proposition around the sale of assets by these utilities is
15 that these proceeds are used to pay down the debt that was
16 used to fund the capital works. That would be IPART's
17 normal expectation, although we would be open to proposals
18 from the utility. I just wanted to emphasise that is
19 normally what happens to the proceeds of assets that are
20 sold.
21
22 MS PASENOW: Thank you.
23
24 MS BOWDEN: May I make a comment?
25
26 THE CHAIRMAN: Of course.
27
28 MS BOWDEN: This is just on a comment that Carol made
29 partway through her talk. We found it perplexing that, on
30 Hunter Water's 2010 annual report - Carol was referring to
31 code description 3 - there was reference to "Land not
32 currently used but fully required for integral lands"
33 comprising 55 properties, valued at \$75 million. We assume
34 that is the Tillegra landholdings.
35
36 We just heard through the media yesterday, and it is
37 up on the Hunter website, about the new Lower Hunter water
38 plan. Tillegra Dam is not included in the new Lower Hunter
39 water plan, so we find it perplexing that, in Hunter
40 Water's last report, it was actually noted as needed for
41 future integrated? planning. Maybe that is a question that
42 Hunter Water can answer.
43
44 THE CHAIRMAN: Would Hunter Water like to comment on that?
45
46 MR WOOD: Yes, just briefly. I agree the land was
47 classified in that form as at last year's annual report.

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1 However, you will see that we have initiated a new category
2 this year. It is no longer classified as urban future use,
3 so the land is fully available for sale if required for
4 sale.
5
6 THE CHAIRMAN: Thank you, Kim.
7
8 Are there any other questions or comments for the No
9 Tillegra Dam Group from the floor? Thank you very much,
10 Carol. Thank you, Linda.
11
12 MS PASENOW: Thank you.
13
14 THE CHAIRMAN: We will now hear from the Total
15 Environment Centre.
16
17 TOTAL ENVIRONMENT CENTRE
18
19 MR MARTIN: Thank you, Mr Chairman. I am Leigh Martin,
20 from the Total Environment Centre. I find myself in
21 agreement with much of the last submission by the No
22 Tillegra Dam Group. I must say it is a pleasant feeling
23 for me, at an IPART hearing, to not be the voice in the
24 wilderness, as it were, on many issues. So that is a
25 pleasant change from experiences in the past.
26
27 There are a number of issues that I want to canvass
28 today, and they are the price path period, price
29 structures, and some of the issues around sewerage pricing
30 as well.
31
32 In terms of the length of the determination period, we
33 do not have particularly strong views one way or another.
34 I think we are generally of the view, given that the
35 four-year determination has been appropriate in the past,
36 that it is likely to be appropriate again.
37
38 Whatever period is chosen, we think there is
39 considerable value in maintaining alignment between the
40 price paths for Hunter Water and also for Gosford and
41 Wyong, particularly given the connection between the two
42 utilities and the sales of water between them. So we think
43 whatever option the Tribunal takes, it should apply that to
44 both utilities and consider the situation of both systems
45 in making those determinations.
46
47 There is another point I wanted to make on demand

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1 management. No Tillegra Dam Group just recently mentioned
2 the issue of demand management. I think that is important
3 in terms of the forecast water sales. Obviously the
4 Tribunal, in determining prices, can only consider what are
5 the likely water sales to occur over that price path.

6
7 I would have to say that there is considerable room
8 for improvement in Hunter Water's demand management. I
9 think the figures that the Tribunal has been asked to make
10 a determination on may reflect what will be achieved under
11 current arrangements. However, there is considerable room
12 for improvement in reducing water demand in the Hunter,
13 particularly in terms of things such as introducing
14 water-saving rules - applied by many other utilities, not
15 the Hunter - and introducing the requirement for businesses
16 to develop water-savings plans.

17
18 We do not have those incentives in the Hunter. On the
19 contrary, we have incentives for industries to use more
20 water through the provision of discount prices, which I will
21 touch on in a moment. That there is room for improvement
22 in demand management is perhaps not surprising
23 given that, at least until very recently, Hunter Water was
24 a utility that had a seeming obsession with a very large
25 and unnecessary supply augmentation. Obviously, in that
26 context, demand management was not the key focus. I think
27 now it should be as a more cost-effective approach.

28
29 We do think there is a lot of room for continuing improvement
30 in demand management in the Hunter, recognising
31 the historic situation in the Hunter is that there is a
32 historic pattern of low water use, largely a result of a
33 long period of water restrictions in the 1980s, coupled
34 with the introduction of user pays pricing. However,
35 I think there has been a tendency to rest on the laurels
36 and not recognise that there is considerable room for
37 improvement.

38
39 Key amongst those opportunities for demand management
40 is reform of price structures. It is fair to say that it
41 is a long-held view of the Total Environment Centre - and
42 we have made this point in relation to other utilities as
43 well - that the current reliance on a high level of fixed
44 charges provides a major disincentive for customers to
45 change their resource usage patterns, their water
46 consumption patterns. It is also a major disincentive to
47 invest in things that may make their homes and properties

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1 more efficient. That is simply because the ability to
2 control your bill is diminished by those high level usage
3 charges.

4
5 We certainly note feedback that Hunter Water received
6 from customers to the effect that they want to have a
7 greater degree of control over their bills. We endorse
8 that sentiment. We think that it is good for customers
9 and, very importantly, our point of view is that it is good
10 for the environment.

11
12 Our general view is that the current level of fixed
13 charges needs to be reduced and there needs to be a
14 significantly greater reliance on volumetric pricing. We
15 recognise that does expose utilities to some risks in term
16 of revenue, but we also understand that the Tribunal has
17 different measures of dealing with that for other utilities
18 such as Sydney Water. I do not believe it is an insoluble
19 problem.

20
21 I cannot come to an IPART Tribunal hearing on Hunter
22 Water prices without dealing with the location-based
23 charges, which had a little bit of attention this morning.
24 We have argued consistently in previous price
25 determinations that the current location-based charges,
26 which provide a large discount for large industrial
27 customers, should be abolished. I am not going to
28 disappoint you, because I am making the same argument
29 today. It is, quite frankly, an anachronism that the
30 largest water users for a utility are provided with a
31 discount on their water usage.

32
33 Hunter Water has recognised itself, in both its
34 submission to this determination and to the previous
35 determination, that that measure was introduced as it saw
36 the coming of competition in the water sector. It is quite
37 clear that those location-based prices are an attempt to
38 undercut potential competition from recycled water. From
39 an environmental point of view, I find it quite
40 extraordinary that a utility would be seeking to keep its
41 largest water users on the potable water supply when they
42 are the ones that, really, a responsible utility should be
43 making the maximum effort to switch from potable water on
44 to recycled water.

45
46 We, therefore, strongly believe in the need for change
47 and we urge the Tribunal to abolish those location-based

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1 prices. We think it is also unfair to residential
2 customers, who are using less water but are paying a higher
3 rate than they otherwise might need to.

4
5 The other point that I want to make - I previously
6 said in relation to this that part of my job description is
7 tilting at windmills, but I am going to say this anyway -
8 is that we do believe that there needs to be a
9 reintroduction of volumetric pricing for sewerage charges
10 for domestic customers. We were dismayed when that was
11 discontinued in the last price determination.

12
13 I understand the point that is made that many of the
14 costs of providing those services are fixed - that is, not
15 related to the volumes discharged - but I think that is a
16 somewhat narrow view. Certainly the impacts, the
17 environmental impacts, of discharging effluent to receiving
18 waters are related to the volumes of effluent that are
19 discharged. So having a volumetric component to those
20 prices would reflect the polluter pays principle.

21
22 Also, just from the purely practical point, having
23 those sewerage charges as fixed charges reduces customers'
24 ability to control their bills. It is interesting to note
25 that that is the feedback that has been received from
26 customers. They were disappointed by the discontinuation
27 of those volumetric charges for sewerage services because
28 it has diminished their control over their bills. We
29 strongly believe that that was a mistake and that this
30 determination can provide an opportunity to correct that
31 mistake - a mistake that has not been popular with the
32 customers.

33
34 The final point I wish to make is in relation to
35 transfers to the Central Coast. I think I made the point
36 at the Gosford-Wyong hearing that we are generally relaxed
37 about the current pricing arrangements for sales between
38 the two utilities. However I would note that Hunter Water
39 Corporation has included in its submission - and in the
40 Gosford-Wyong process, the two councils include this in
41 their submissions - proposals for inter-regional water
42 banking between the two utilities; that is, essentially
43 transferring water between the two utilities. We are
44 interested in exploring that, and certainly it should be
45 explored as part of the Lower Hunter water plan process.
46 But at the moment, it is very difficult to provide informed
47 comment on that because there is a paucity of information

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1 available, particularly, in terms of the potential
2 environmental impacts.

3
4 We will need a lot more detail on that, and I would
5 urge the Tribunal to look at those proposals with a high
6 level of scrutiny and tease out whatever information may be
7 available in terms of potential impacts. It could be, if
8 not more closely scrutinised, that it would simply amount
9 to an augmentation by stealth. We would need to know, one,
10 whether it is actually required and, two, what the
11 environmental impacts are. So, again I would urge the
12 Tribunal to look at that with a very high level of
13 scrutiny.

14
15 Those are the main points I wanted to make. The
16 underlying principle that we think should inform IPART's
17 determinations on this is the need to provide customers
18 with greater control over their bills. That means
19 increased reliance on volumetric charges. We believe that
20 it is good for customers and it is also good for the
21 environment.

22
23 THE CHAIRMAN: Thank you, Leigh. Are there any questions?

24
25 MS CHADWICK: In relation to your comment that we should
26 reflect the decision, I would note the reasons that
27 decision was made in 2009 and to ask you which - if any -
28 of those factors you think have changed over the period?
29 For example, at that time we considered that the water
30 usage charge was a better and stronger signal for the
31 purposes of demand management signalling consumption.

32
33 We did recognise the fixed nature of sewerage
34 services. Hunter Water had evidence of the nature of the
35 complaints they were receiving about paying for the
36 sewerage charge. There was an equity issue where the charge
37 had very different impacts on consumers who had been
38 subject to Basix requirements versus those that hadn't, and
39 obviously the charge was out of line with the charge
40 structures of most other Australian major metropolitan
41 water utilities. Could you reflect on the evidence you
42 have for our decision at that time?

43
44 MR MARTIN: One of the things that has changed is that we
45 now have feedback for customers to say that there are many
46 customers that are disappointed with the change. We
47 probably disagreed with IPART's assessment and reasoning

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1 at the time and that hasn't changed and we still disagree
2 with that. I note those points that you have made but we
3 disagreed with them and we disagree with them now.
4
5 I think one of the things that is not considered in
6 the sewerage price is that there is a volumetric component
7 to the environmental impact, in that the treatment and
8 discharge of effluent is one of the most heavily
9 environmentally impacting activities that utilities
10 undertake and fixed charges do not adequately reflect a
11 polluter pays signal and do not adequately reflect that the
12 environmental impacts of discharging effluent are directly
13 related to the volumes of effluent that are discharged.
14 That is perhaps a philosophical difference that Total
15 Environment Centre has with the Tribunal.
16
17 MS CHADWICK: One aspect of your submission that you
18 did not allude to in your presentation are your views about
19 the stormwater charge, particularly a two-part tariff. Do you
20 have any further elaboration on that?
21
22 MR MARTIN: Our general view is that stormwater charges
23 should reflect the amounts of stormwater the property
24 provides. Obviously a large property is likely to
25 contribute a larger amount of run-off to the stormwater
26 system, but that in itself is perhaps only one aspect. It
27 is also the amount of hard surfaces on a property. The
28 amount of stormwater that a property will contribute to the
29 stormwater system is directly related to the amount of hard
30 surfaces. We think the stormwater charges should reflect
31 that.
32
33 It should also be taken into account that there are
34 things that some customers can do to reduce the amount of
35 stormwater from their property. One of those things is
36 installing rainwater tanks, which will reduce the amount of
37 stormwater that a property discharges. We think, with
38 stormwater charges, that there needs to be a component of
39 charges priced for everyone because all people benefit from
40 stormwater services, whether their property directly
41 contributes or not, but those properties that contribute
42 greater quantities of stormwater have a greater impact and
43 they should be subject to a greater level of charges than
44 those properties that contribute less.
45
46 THE CHAIRMAN: Would Hunter Water like to share any
47 comments on the water banking issue?

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1
2 MR WOOD: Yes, just briefly. This is very much a matter
3 for the Metro Water Directorate as part of their
4 deliberations by the end of next year. All I would like to
5 say is that the existing contractual arrangements are
6 potentially insufficient. It doesn't contemplate swaps or
7 banking. Some of those may well be needed if we back an
8 independent Central Coast more strongly than we are today.
9 I am sure all will be revealed as Metro Water Directorate
10 goes through its deliberations by the end of next year.
11 I understand a strong consultation process has been kicked
12 off and planned during that process.
13
14 MR MARTIN: Could I add that we are not intrinsically
15 opposed to the idea of water banking and we do not
16 intrinsically support it. At the moment we do not have any
17 data on which to make an informed decision. I just want to
18 caution that consideration of the inter-regional water bank
19 needs to be made on the basis of hard data but particularly
20 data on the potential environmental impacts.
21
22 MR COX: Could I just ask you a question on location-based
23 pricing because it is a strong argument that you made.
24
25 MR MARTIN: Yes.
26
27 MR COX: One of the possibilities I think you mentioned is
28 that if we were to do away with location based pricing,
29 that that means some light users might use less potable
30 water than they are using now and you thought that that was
31 desirable. I think that the implication of that is that
32 the cost to the potable water system has not changed and
33 the upward pressure on the bills of other customers.
34 Because customers are no longer using as much water, they
35 are likely to be of concern to us in the context of wishing
36 to control prices to customers in general. Would you like
37 to comment on that?
38
39 MR MARTIN: It is an interesting argument that you have
40 made, but you are asking me to express an opinion in the
41 absence of any data or figures. I think that is something
42 the Tribunal would need to explore, but we do not know. We
43 do not know what the impact on other customers would be
44 because we have not seen that explored in terms of either
45 the contribution by Hunter Water or the contents of the
46 discussion paper.
47

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1 One of the points that I made in the Gosford-Wyong
2 hearing is that in the submissions from utilities, from the
3 general point of view they have a proposal and the
4 arguments they put forward are in support of that proposal
5 and that's inherently logical. What we do not see is any
6 information on alternatives and the relative cost benefits.
7 We only see a prosecution of a case for one option. We do
8 not see any information contained in alternatives as well.
9
10 MR COX: That is something you might want to think about.
11
12 MR DRAPER: Leigh, my question is related to Jim's
13 question, actually. One of the points you made earlier in
14 your presentation was about demand management and
15 reducing overall consumption. There is a slight paradox in
16 that in a system that is largely fixed cost, the more that you
17 reduce consumption the higher unit prices have to go to
18 recover that revenue. That may be a valid objective. It
19 does conflict with the objective that Hunter Water has set
20 itself to try to keep that unit cost down. Do you see a
21 way of reconciling these objectives?
22
23 MR MARTIN: I think the point you are making is that if
24 people use less water, you have to charge them more for the
25 water they use. Certainly that is the case, but I think
26 what you should aim to do is to ensure that the overall
27 impact on customers remains about the same. Obviously they
28 are paying more for water and using less of it. I find it
29 hard to believe that the Tribunal and Hunter Water could
30 not find a way to balance those things such that the
31 overall impact on customers is not unacceptable.
32
33 THE CHAIRMAN: Any there questions or comments from
34 the floor for Leigh? Thank you very much, Leigh.
35
36 PUBLIC INTEREST ADVOCACY CENTRE
37
38 THE CHAIRMAN: Next we have the Public Interest
39 Advocacy Centre here. Thank you, Oliver.
40
41 MR DERUM: Thank you, Mr Chairman, and I would like to
42 thank IPART for holding this forum and for giving me the
43 opportunity to appear before it. My name is Oliver Derum
44 and I am a policy officer in the energy and water consumers
45 advocacy program at the Public Interest Advocacy Centre.
46 I am going to talk to you today about the proposed price
47 rises and their potential impact on consumers, customer

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1 assistance measures and the length of the determination
2 period.
3
4 By way of further background, the Public Interest
5 Advocacy Centre - or PIAC - is an independent non-profit
6 law and policy organisation. PIAC operates the energy and
7 water consumers advocacy program which works in the
8 interests of residential consumers of energy and water.
9 PIAC receives funding from the New South Wales Department
10 of Trade and Investment to carry out this work.
11
12 I will not dwell on the price increases. We have heard
13 enough of them from Hunter Water. In PIAC's view, we
14 think that they are manageable for the majority of
15 consumers.
16
17 I do want to talk a little bit about tariff
18 re-balancing. Hunter Water has re-balanced its tariff
19 structure to increase its percentage of bills made up from
20 variable consumption charges. This was done in response to
21 our customer survey that indicated that 75 per cent of
22 customers wanted to have greater ability to control their
23 total bill by varying their consumption. PIAC certainly
24 welcomes the fact that Hunter Water has made this change as
25 a result of a customer engagement process.
26
27 However, it should be noted that renters will be
28 disadvantaged by this change because the standard
29 residential tenancy agreement includes fixed water and
30 sewage supply charges as part of the rent while passing on
31 the charge for water usage.
32
33 While the changes in the tariff should, in theory, put
34 downward pressure on rents, at the very least we think that
35 this effect will be less immediate on renters than the
36 re-balancing of the tariff. Renters are also not entitled
37 to much of the customer assistance available to
38 owner-occupiers and I will return to that point later.
39
40 PIAC is aware that Hunter Water may become subject to
41 new licence conditions related to promoting water-saving
42 measures which could lead directly to revenue being
43 under-recovered in the next determination period. This is
44 a point that was referred to a moment ago. Schedule A of
45 Hunter Water's operating licence states that the Lower
46 Hunter water plan is expected to be completed in the summer
47 of 2013/14. That schedule further states that once the

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1 plan is completed, it is envisaged that the minister will
2 amend the operating licence to place obligations on
3 Hunter Water with respect to the implementation of the
4 plan.
5
6 PIAC is concerned that if Hunter Water under-recovers
7 revenue due to water saving obligations, this will
8 necessitate a price spike at the start of the next
9 determination period which may be difficult for consumers
10 to manage. Such a scenario occurred with Sydney Water who
11 have stated that as part of their 2012 price determination
12 process, they need to increase revenue to cover shortfalls
13 due to lower consumption that threatens the financial
14 viability of the business.
15
16 There are four customer assistance measures that
17 I would like to mention here today. These are rebates, the
18 promotion of customer assistance measures, reporting
19 customer hardship performance and assistance to renters.
20 At this point, I would also like to acknowledge that
21 Hunter Water has made some excellent progress in recent
22 times in its customers assistance program, not least the
23 recent announcement that we had today about Centrepay
24 being made available.
25
26 PIAC believes that there are further improvements that
27 can and should be made. If affordability is indeed the new
28 black, I would like to present your guide to the Paris
29 fashion week of customer reporting measures. This is the
30 rebate that is offered through the New South Wales state
31 government, the rebate that is available to Hunter Water's
32 pensioner customers, and it has increased in line with that
33 government decision to the point where it will reach \$280
34 in 2016/17 if the proposed prices were agreed to by IPART.
35 PIAC believes that the pensioner rebates offer a highly
36 effective model for utilities assistance and we would like
37 to see this model applied throughout the state and for
38 energy as well as water.
39
40 However, it should be noted that despite the
41 increases, the Hunter Water pensioner rebate is still
42 significantly less than that of Sydney Water. A pensioner
43 in Hunter Water's area living in a freestanding house would
44 receive a rebate of \$534.75 if the rebate was paid at
45 Sydney Water rates, which are a 100 per cent rebate on the
46 water service charge, 83 per cent of the sewer and
47 wastewater service charge and 50 per cent of stormwater.

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1
2 We heard earlier how Hunter Water exceeded
3 Sydney Water in the efficiency of its operational
4 expenditure and I would challenge them to try to exceed
5 Sydney Water in this area of pensioner rebates.
6
7 Promoting customer assistance measures: there is an
8 existing requirement for Hunter Water to promote these
9 measures on the internet and through bill inserts that are
10 required under its licence to be sent out at least once a
11 year. There is also a requirement for the measures to be
12 promoted through local newspapers once a year.
13
14 PIAC notes that these channels of communications have
15 their limitations. Not everyone is connected to the
16 internet and customers who are experiencing hardship will
17 often not open what appears to be a water bill. PIAC would
18 like to see Hunter Water partner with local community
19 organisations to promote customer assistance measures.
20 These organisations have well developed and trusted
21 communication networks and newsletters which are well read
22 by specific target groups and ads can generally be placed
23 with little or no cost to a corporation like Hunter Water.
24
25 Reporting customer hardship performance: PIAC would like
26 to see Hunter Water produce a yearly report on hardship
27 performance. This should include figures on the number
28 of people on payment plans, including the number who
29 drop off payment plans without completing them, the number
30 of people receiving rebates, the number given flow
31 restrictions and the number who receive assistance with
32 water efficiency and water saving.
33
34 Performance regarding customer hardship and assistance
35 should be measurable and reportable. Such a report would
36 be a valuable tool in assessing the effectiveness of
37 Hunter Water's hardship programs. It would facilitate the
38 cycle of continuous improvement in an effort to address
39 customer hardship and also assist low income and vulnerable
40 consumers.
41
42 PIAC would also like to see documented and verifiable
43 commitment from Hunter Water that programs such as the
44 pensioner tap re-washing service will be continued
45 through the upcoming determination period, particularly if
46 the cost of those programs are part of Hunter Water's
47 stated revenue requirements.

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1
2 Returning to assistance to renters, due to the nature
3 of water billing, tenants of rental properties are not able
4 to benefit from most customer assistance measures available
5 to owner occupiers. Renters are also not able to make
6 water efficiency improvements to their dwellings that
7 involve significant investment, so things beyond
8 shower-head replacement is basically what we are thinking
9 of now.
10
11 In light of the increase in water consumption charges,
12 which, as I said, are paid by tenants rather than
13 landlords, PIAC would like to see a project to help tenants
14 reduce their water bills. One option would be for
15 Hunter Water to work with landlords to replace water
16 inefficient toilets in rental properties. This would go
17 some way to offsetting the increase in bills that tenants
18 would face as a result of these increases in consumption
19 charges.
20
21 Finally, with respect to the length of the
22 determination period, PIAC favours a four-year
23 determination period. We believe that this offers a
24 balance between giving Hunter Water certainty with which to
25 plan its investment decisions and the risk that consumers
26 will have to wait to benefit from gains in water efficiency
27 made earlier in the determination. I would also echo what
28 was said by Leigh Martin, from the Total Environment
29 Centre, about the logic of aligning the Hunter Water
30 Determination with the Gosford and Wyong determination
31 processes. Thank you.
32
33 THE CHAIRMAN: Thank you, Oliver. Questions?
34
35 MS CHADWICK: You raised a couple of very interesting
36 timing issues for us to consider. The first one relates to
37 the usage signal that renters pay. That may take a little
38 time to flow through to renters. Noting that landlords
39 have a responsibility to install water efficiency devices
40 under the Residential Tenancies Act, how do you think that
41 we should be responding to that timing issue?
42
43 MR DERUM: I think it is probably more in Hunter Water's
44 court than IPART's. If they were to look at a program to -
45 this is the best example we have - replace toilets, there
46 would obviously be costs to them associated with that.
47 IPART of course would have to consider those costs.

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1 I would have to take guidance from you about the ability
2 for that to come from you rather than in response to a
3 proposal from them.
4
5 MS CHADWICK: The second one relates to the implications
6 of the adoption of the Lower Hunter water plan in the
7 course of the price period. You seem to see a risk there.
8 Can you explain the risk?
9
10 MR DERUM: Yes. The risk is that if the Hunter water plan
11 imposes requirements regarding water efficiency and that
12 means people reduce their consumption and Hunter Water
13 then under-recovers its revenue, that would have to be made
14 up for at the start of the following determination period in
15 the form of a bigger jump in price. Our belief is that
16 those changes are more difficult for consumers -
17 particularly vulnerable consumers - to absorb than if the
18 increase was gradual over the period.
19
20 MS CHADWICK: That is a transitioning issue. My last
21 question is in the context of what seems to be
22 Hunter Water's very comprehensive customer hardship
23 program - I looked for it but I could not immediately find
24 it - the percentage of their customers that are actually
25 accessing those programs, would I be right in thinking it
26 is about 8 per cent? It is in the submission. It is a
27 reasonably large number. Do you think that there is more
28 that Hunter Water ought to be doing?
29
30 MR DERUM: As you say, and as I said, they are pretty
31 good. The issue that stands out to us the most is the size
32 of the pensioner rebate and I think Sydney Water offers the
33 closest parallel for the Hunter Water business model.
34 We think if they can give pensioners about 80 - I'm not
35 sure of the exact figure, but significantly more of their
36 bill, we would like to see Hunter Water endeavour to move
37 in that direction.
38
39 MS CHADWICK: That is a matter for government policy.
40
41 MR DERUM: Right.
42
43 THE CHAIRMAN: Are there any questions from the floor for
44 Oliver? Are there any questions or comments? No. Thank
45 you very much, Oliver.
46
47 Next we will hear from the Combined Pensioners and

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1 Superannuants Association of New South Wales.
2
3 COMBINED PENSIONERS AND SUPERANNUANTS
4 ASSOCIATION OF NEW SOUTH WALES
5
6 MS CROWE: My name is Charmaine Crowe. I am policy
7 officer at the Combined Pensioners and Superannuants
8 Association of New South Wales. Firstly, I would like to
9 thank IPART giving us the opportunity to present here
10 today.
11
12 I must say that I missed in the submission that the
13 rebate for pensioners was going to continue to be increased
14 throughout this determination. We very much welcome that.
15 However, we do have a longstanding position - further to
16 what Oliver Derum was saying - that there are great
17 disparities between ordinary rebates to pensioners
18 throughout New South Wales and we think that that is an
19 issue that the New South Wales government really needs to
20 rectify.
21
22 We also think that the Sydney Water rebate structure
23 is perhaps the best one to follow and that all pensioners
24 in New South Wales should be entitled to the same level of
25 assistance, given that they are on the same income.
26
27 In addition, more broadly with respect to rebates,
28 essentially, they are the best way of assisting
29 lower-income and vulnerable customers affording essential
30 services such as water. More broadly, we think they need
31 to be reformed to ensure that they are targeted at those
32 who are most in need, including people who are unemployed
33 but do not receive a pensioner concession card and are
34 therefore not entitled to a water rebate. These people
35 have significantly lower incomes than most pensioners and
36 we think that they should be entitled to such financial
37 assistance.
38
39 While everyone with a pensioner concession card
40 qualifies for the rebate, not every cardholder necessarily
41 needs one. For example, a single pensioner can have an
42 income of \$43,000 a year, couples pensioners can have an
43 income of up to \$66,000 a year and qualify for a rebate,
44 whereas an unemployed person's income is significantly
45 lower. In New South Wales, it is around \$12,000 a year at
46 the moment. There is a huge disparity there.
47

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1 Additionally, with the ageing of the population, it
2 will mean that rebates become more onerous on governments
3 and utility providers and from the CPSPA's point of view, we
4 think it is worthwhile to consider dividing the rebate pool
5 more fairly so it would give increases to those who most
6 need it and extend rebates to those who currently don't
7 receive them but their incomes would mean that they very
8 much struggle with the price of utilities. To do this,
9 would necessitate means testing of the rebate.
10
11 We are providing rebates to people who do not need
12 them now but who will perhaps need them in the future.
13 I am talking about people who have retired recently and
14 they may have superannuation which is in addition to their
15 pension. That superannuation is going to deplete over the
16 long-term and they will find that they may well be on a
17 full rate of pension. It is actually in their interests as
18 well to ensure that the rebate be means tested so that when
19 their private savings deplete, they have access to a rebate
20 that is adequate and is also indexed to water price rises.
21
22 Obviously, politically it is not possible to take rebates
23 away from people who already have them and we would
24 suggest that such a measure would need to be grand-fathered
25 so that those who currently receive them continue to do so.
26
27 This kind of policy has been done before. We have
28 seen at a federal level the set-top box initiative given to
29 pensioners from the federal government. It only went to
30 those pensioners who were in receipt of a full-rate
31 pension. That is an example of how this could be done.
32
33 We also urge the New South Wales government to extend
34 the rebate to residents of residential parks and
35 manufactured homes estates. Currently, if they are not
36 individually metered they do not receive the water rebate,
37 even though they do not pay any water charges. They just
38 pay it to the park owner rather than to the utilities
39 directly. We think that that is an anomaly that urgently
40 needs to be addressed. I think that pretty much sums up my
41 presentation for today. I am sorry to be brief but they
42 were the main points we wished to make.
43
44 THE CHAIRMAN: Thank you, Charmaine. Any questions?
45
46 MS BISHOP: Thank you for the information on the rebate
47 and reform proposals. As you note, that is a matter for

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1 the New South Wales government.
2
3 MS CROWE: Yes.
4
5 MS BISHOP: Do you have any comments on Hunter Water's
6 other customer assistance programs and whether they could
7 be improved and what the priority would be?
8
9 MS CROWE: We welcome Hunter Water's community
10 Centrepay. That is something that is very worthwhile for low
11 income and vulnerable consumers.
12
13 If I may just refer to the issue of volumetric
14 pricing, it is something that we hear from our members,
15 most of whom are aged pensioners, that they feel frustrated
16 that they cannot reduce their water bill because of the
17 level of fixed charges as opposed to usage charges.
18 I agree with that to a degree, but I think that there needs
19 to be caution or consideration given to large families who
20 perhaps do not have so great an ability to reduce their
21 water usage. Those large families on low incomes will
22 particularly struggle and may not be in a position to
23 reduce their usage to a great degree. I think IPART needs
24 to consider that issue and perhaps there needs to be more
25 direct or more targeted water efficiency measures for such
26 groups.
27
28 THE CHAIRMAN: Thank you. Are there any questions from
29 the floor for Charmaine? No questions or comments? Thank
30 you very much, Charmaine.
31
32 MS CROWE: Thanks.
33
34 THE CHAIRMAN: The next group is the Property Owners
35 Association.
36
37 PROPERTY OWNERS ASSOCIATION OF NEW SOUTH WALES
38
39 MR BANYARD: Thank you for the opportunity to make a
40 presentation today. This morning we have heard from a lot
41 of groups that do not favour water sewerage or drainage
42 price increases. Those who have read the submissions will
43 also note concerns about rising costs.
44
45 Most pensioners pay full rates and do not get
46 concessions, rebates or assistance because they are
47 commonly tenants or low-income self-funded occupants in

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1 properties they do not own.
2
3 Hunter Water requires all of its clients to hold
4 customer contracts. If you are not the owner of a
5 property, you cannot have a customer contract. Hunter
6 Water's pensioner customers are clearly the tip of the
7 iceberg - it only has a few.
8
9 Remember that the pensioner bill, especially for
10 single pensioners, only has a low water consumption, many
11 less than 25 kilolitres, and 5, 7 or 10 is not uncommon.
12 That means that the current bill of about \$250 for those
13 people has a usage of about \$12. That is 95 per cent fixed
14 charges. If this is not bad enough, this bill would have a
15 sewer discharge service that is about 15 times more
16 expensive than the input price.
17
18 Worse still, there are pensioner owners and landlords
19 who have spent considerable sums of money on water-saving
20 devices and water tanks, et cetera. Clearly, water
21 concentration and environmentally friendly disposal needs
22 to be based on a high level of user pays - the more you do,
23 the more you are rewarded. This is the total opposite of
24 the price path that has been proposed.
25
26 Where is the price signal for water conservation?
27 I put it to the Tribunal members that water prices are like
28 a card trick - cheap water use prices and over-the-top
29 fixed charges. The only figure that those who receive
30 accounts from Hunter Water are interested in is the amount
31 to be paid, and that is commonly called the water bill.
32
33 Hunter Water's submission document refers the Tribunal
34 to a survey and other consultation as support for its case.
35 That survey just reports those who undertook the survey,
36 et cetera, as respondents. The question is: did those
37 respondents hold a customer contract? Were they landlords,
38 tenants, non-water users, even schoolkids? I would argue,
39 and our association would argue, that only holders of
40 customer contracts should qualify, and they are the only
41 ones who should be consulted.
42
43 I wish to home in on the issue of landlords and
44 tenants. I remind the Tribunal members of my comments at
45 Gosford about the different classes by repeating that
46 landlords and tenants are in the two classes of citizens.
47 Likewise, landlords and occupiers are not two classes of

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1 landowners. Also residential occupiers and businesses are
2 not two classes of occupiers. The price path proposal and
3 the proposed practices do not recognise this and treat each
4 group differently, even having different price levels
5 within groups.
6
7 Hunter Water's price path submission spells out a
8 large discount and other deals done between selected end
9 users. Discounts in the order of 25 per cent are
10 mentioned. It is true that some may use massive water
11 volumes; however, this means massive extra capital costs
12 and, in the event of a closure, Hunter Water is left
13 holding the bathwater, and it may be a large debt.
14
15 The closure of BHP is a major example where an
16 organisation closed down leaving a lot of infrastructure
17 behind that Hunter Water had no use for. The aluminium
18 smelter at Tomago, which is currently going to close down,
19 is another customer that will leave Hunter Water with major
20 capital equipment.
21
22 The POA believes the unit price set by this
23 determination should be an absolute price; that is, every
24 litre of water sold by the authority is exactly the same
25 price. Sewerage and drainage should also be equal.
26 Ten per cent, for example, is the same for a pensioner as
27 it is for a multinational. The dollar in the parking meter
28 is exactly the same, no matter who is putting the dollar
29 in.
30
31 Secondly, tenants do not pay the water, sewerage or
32 drainage bill at all. The landlord pays the bill. Worse
33 still, all tenants do not pay the same rate to the landlord
34 for water used by them. The Department of Housing clients,
35 unmetered tenants, metered tenants, boarders, lodgers,
36 group housing, retirement homes, et cetera, are all
37 different.
38
39 Speakers for Hunter Water and PIAC, and others, this
40 morning outlined assistance programs. However, most
41 tenants are not eligible for that sort of assistance
42 because they do not hold customer contracts.
43
44 This brings up the issue of metering. I ask the
45 Tribunal members if they can think of products on sale to
46 consumers that are not metered or measured - 100 litres of
47 petrol, the dollar in the parking meter, which is charging

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1 by the minute, et cetera. But here we have a sewerage and
2 drainage discharge with no dimensions or measurements.
3 Even the water is a fixed price plus a volumetric measure
4 to top up.
5
6 Water, sewerage and drainage should be measured so
7 that consumers takes delivery of the product and pays for
8 the services they choose to use. Meters are cheap and easy
9 to install, especially given the new electronic technology.
10 Meters also offer considerable economic benefit to the
11 suppliers. They can help identify distribution losses and
12 other management things for them.
13
14 As much as 50 per cent of households - that is
15 households - do not have metered water supplies and
16 therefore have no means of being charged volumetrically for
17 water consumed. A property without a water meter,
18 according to the Hunter Water submission, is to be charged
19 \$400. This group includes a large number of tenants,
20 because it is typical that a block of units, or a block of
21 land, or a multi-occupancy dwelling simply has one meter
22 for the whole premises and not for individual units.
23
24 Landlords, except the Department of Housing, by law,
25 cannot charge tenants for unmetered water supplies. Where
26 the landlord charges tenants for water use, the landlord is
27 responsible for the cost of the bill to the tenants and for
28 collecting that payment at a cost of a bad debt, and for
29 this the landlord gets absolutely no recompense. The
30 landlord should be considered to be a re-seller and paid by
31 the water authority for providing these services. The
32 determination should set a re-seller allowance.
33
34 I would also ask IPART to consider the role of Hunter
35 Water as a tax agent. The government rebate is a very
36 discriminatory tax on Hunter Water and, in some years, it
37 can be up to \$35-odd million. It is a tax on Hunter Water
38 customers. The revenue raised is not even earmarked for
39 expenditure in the Hunter or for special incentives for
40 Hunter Water to, in fact, increase its infrastructure. It
41 is \$35 million that just goes straight down to Sydney, and
42 I also note that Gosford and Wyong, for example, do not pay
43 that.
44
45 Hunter Water has done some fine work. The new
46 sewerage treatment plant at Branxton is an example. Hunter
47 Water has also done some abysmal work. The works in the

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1 major Throsby Creek drain have converted a self-cleaning,
2 open drain into a major rubbish trap and they have ruined
3 major heritage. Vegetation has been allowed to destroy
4 concrete slabs and pavers and silt has been allowed to
5 build up. That is certainly not the way to maintain a
6 major drainage asset that required an act of parliament in
7 1932, at a cost of 760,000, pounds to install.

8
9 I conclude: we strongly advocate for a 100 per cent
10 user pay system to every household and business that is
11 fully metered with all services sold at a single rate per
12 unit. This will ensure that those user services pay for
13 their own use and Hunter Water will reward them for their
14 efforts in conservation and in environmental management.

15
16 Whilst it may be uncomfortable for water authorities,
17 it allows competitors to enter the market to sell a
18 standard product - competition being sufficiency,
19 innovation and a much better product for the community.

20
21 As a final comment, the POA favours a three-year
22 period for the determination. Thank you.

23
24 THE CHAIRMAN: Thank you, very much, Rick. Are there
25 any questions?

26
27 MS BISHOP: You have argued that there ought to be
28 individual metering installed in all properties. There is
29 a cost to doing this retrofitting. Would you explain why
30 you think the cost ought to be borne, given that it is paid
31 by all customers and over what time frame?

32
33 MR BANYARD: With the time frame, for a start, obviously
34 you cannot suddenly change the whole metering system and,
35 from 1 January next year, have everybody on three meters,
36 one for sewer, one for water, one for drainage. That just
37 will not happen.

38
39 But we have new customers being connected to the
40 services starting now. There is no reason why new
41 customers cannot be required, as part of their original
42 installation, to be fitted out in the new arrangement, and
43 then progressively the other customers can come on line
44 with adjustment to their meters.

45
46 With regard to the cost of the metering, there is a
47 large amount of metering equipment now available on the

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1 market - it is very sophisticated and very easy. I would
2 anticipate that a house - say, a standard house - could be
3 set up with the three meters for about \$250. Remember,
4 that the capital cost of the existing water meters is
5 something like \$150 for the existing meter.

6
7 MS BISHOP: Would you please explain the benefits you see
8 from a three-year determination period.

9
10 MR BANYARD: I think there are a lot of changes in the
11 market. There are a lot of changes in the marketplace for
12 a whole lot of reasons. One change obviously should be the
13 installation of a lot of meters - that was brought up
14 before - so that would significantly change the
15 circumstances.

16
17 There are other issues that are not completely
18 resolved. Take Tillegra Dam, for example - you heard some
19 comments about that this morning - that is another issue.
20 I think the government in general is looking at adjusting
21 the conservation measures and the conservation signals that
22 are being put forward. So our association probably
23 believes that a three-year term allows adjustments to take
24 place more quickly, and that can be both to the benefit of
25 the water authorities as well as customers.

26
27 THE CHAIRMAN: Thank you. Are there any questions or
28 comments from the floor for Rick? Thank you very much,
29 Rick.

30
31 MR BANYARD: Thank you.

32
33 GENERAL QUESTIONS OF COMMENTS FROM THE FLOOR

34
35 THE CHAIRMAN: That just leaves me to open for general
36 questions or comments from the floor. Would anybody like
37 to make a general comment or ask a question of any of the
38 presenters or of IPART? No.

39
40 CONCLUDING REMARKS

41
42 THE CHAIRMAN: Well, thank you all very much. We have
43 managed to get through well ahead of schedule. I would
44 like to thank you all for your participation in this
45 hearing.

46
47 Hunter Water's new prices will come into effect on

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1 1 July 2013. We will release a draft report with our
2 prices, explaining our reasons for the price path in March
3 2013, and there will be an opportunity for stakeholders to
4 put in submissions on our draft report, and that is usually
5 about three or four weeks. Then we will review any further
6 submissions and release the final report in June 2013 with
7 the new prices to take effect on 1 July 2013.
8
9

10 With that, I thank you all very much for coming and
11 thank you for participating.
12

13 AT 12.02PM THE TRIBUNAL ADJOURNED ACCORDINGLY
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