

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF PRICES FOR WATER, SEWERAGE, STORMWATER AND RECYCLED WATER SERVICES FOR HUNTER WATER CORPORATION FROM 1 JULY 2009

Tribunal Members

Dr Michael Keating AC - Chairman
Mr James Cox
Ms Sibylle Krieger

Held at the Banquet Room
Newcastle City Hall, 290 King Street
Newcastle, NSW 2300

On Friday, 12 December 2008, at 9.50am

.12/12/08 1

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1 WELCOME AND INTRODUCTION

2
3 THE CHAIRMAN: Good morning, ladies and gentlemen. I
4 would like to begin by welcoming you today to this public
5 hearing which is being conducted by the Independent Pricing
6 and Regulatory Tribunal into water, sewerage, stormwater,
7 and recycled water prices for the Hunter Water Corporation
8 for the period which will commence on 1 July 2009. I
9 should introduce ourselves.

10
11 I am Michael Keating and I am the chairman of the
12 tribunal. Jim Cox, who I am confident will join us
13 shortly, is the chief executive of IPART and a full-time
14 member of the tribunal, and Ms Sibylle Krieger, to my
15 right, is the third member of the tribunal.

16
17 IPART actually last conducted a review of the Hunter
18 Water Corporation prices during 2005 and the pricing
19 determination the tribunal made at that time covered the
20 period from 1 November 2005 to 30 June 2009.

21
22 The present investigation being conducted by the
23 tribunal will cover the areas I mentioned from 1 July next
24 year. I should say the tribunal has not yet decided on the
25 length of the determination period and we are open to
26 suggestions in this regard. I note, however, that Hunter
27 Water has itself suggested a determination period of four
28 years. That would mean the determination would expire on
29 30 June 2013.

30
31 As some of you are probably aware, as part of this
32 investigation, the tribunal released an issues paper in
33 July last which set out key aspects of the review process.
34 That issues paper outlined some of the matters the tribunal
35 considers important to this review, our general approach to
36 price setting, the matters that our Act says we must take
37 into account when conducting the investigation, and a draft
38 timetable for the review.

39
40 In the issues paper, the tribunal called for
41 submissions from Hunter Water Corporation. It also asked
42 for submissions from Hunter Water's customers and other
43 stakeholders. I would like to take this opportunity to
44 record the tribunal's appreciation to those of you who have
45 taken the time to make a submission.

46
47 Some of the organisations that have made submissions

.12/12/08 2

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1 to the review will be presenting a case to this hearing
2 today. All of the submissions received will be carefully
3 considered by the tribunal in developing our findings and
4 recommendations. As you are aware, the New South Wales
5 government has endorsed a proposal for Hunter Water
6 Corporation to build the Tillegra Dam. As part of that
7 endorsement, the government has directed IPART to include
8 in the prices to be set for Hunter Water the efficient cost
9 of constructing Tillegra Dam and a copy of this direction
10 will be included in IPART's draft and final reports.

11
12 I am aware that some of you are here to express views
13 on whether or not construction of Tillegra Dam should go
14 ahead, but I think you will appreciate the tribunal is
15 limited in the scope of its review. The Tribunal's role is
16 to consider the efficient cost of this project to be
17 incorporated into prices and not the virtues of the dam,
18 per se. We are open, however, to suggestions as to how
19 the costs of the Tillegra Dam would best be recovered, who
20 should pay, and when they should pay.

21
22 This review raises several other issues of
23 significance for the community and the tribunal apart from
24 Tillegra Dam. Hunter Water has in fact also proposed a
25 substantial investment program for the next four years to
26 meet the needs of projected population growth and to meet
27 regulatory requirements and service standards.

28
29 Inevitably if all this expenditure is approved, it
30 will flow through to the prices that customers pay. It is
31 part of the Tribunal's role to scrutinise these and other
32 expenditure proposals to assess whether the costs are
33 justified and efficient and whether they should be passed
34 through to customers. This hearing today will consider
35 those issues, amongst others.

36
37 This hearing is in fact a very important part of the
38 broader price review process. It provides an opportunity
39 for the tribunal to hear from Hunter Water, its customers
40 and other key stakeholders and for us as a tribunal to
41 question the propositions being put forward.

42
43 IPART has also engaged a range of independent experts
44 to provide assistance on specific matters relating to the
45 review such as the prudence and efficiency of Hunter
46 Water's forecast expenditure. The findings of the experts,
47 as well as the views of all stakeholders will be a key

.12/12/08 3

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1 input into IPART's decision-making processes.
2
3 The submission made by Hunter Water together with
4 other submissions and consultants' reports will be
5 available to the public through the Tribunal's website.
6
7 Finally, before we actually commence proceedings
8 today, I would like to say just a few words about the
9 process for this hearing. You should have available to you
10 a timetable which indicates the order in which
11 organisations will be presenting before the tribunal. For
12 each organisation appearing, a presentation time has been
13 allowed and this is to be followed by a period of
14 questions. I would ask presenters to stick to the allotted
15 time. If necessary, I will start giving signals to show
16 you that you need to wind up.
17
18 Assisting the tribunal today are tribunal secretariat
19 members: Colin Reid, sitting at the desk to my left, is
20 the director of water programs, Amanda Chadwick, sitting
21 next to Colin, is the program manager for Hunter; and
22 Sheridan Rapmund, who I cannot see, but I am sure Sheridan
23 is here, and she is the senior analyst working on the
24 Hunter Water review.
25
26 At the conclusion of all of the scheduled
27 presentations, I am going to make time available for
28 members of the public to express their views and opinions
29 on the proposals that have been put before us by Hunter
30 Water, its customers and other presenters.
31
32 As is appropriate, we will commence today with the
33 representatives from Hunter Water. I would ask, Kevin,
34 that you state your names. Indeed that is true for all
35 presenters, I will be asking you to state your names when
36 you come up here, the organisation that you represent and
37 your positions, for the record, and then ask that you make
38 your presentation. So, Kevin, over to you
39
40 HUNTER WATER CORPORATION
41
42 MR YOUNG: Thanks, chairman, Kevin Young managing
43 director Hunter Water Corporation. I have with me:
44
45 MS SMITH: Sharon Smith, general manager finance and
46 business services, Hunter Water Corporation.
47

1 MR TURNBULL: Chris Turnbull, general manager
2 infrastructure delivery.
3
4 MR AMOS: Andrew Amos, principal economist in the
5 business strategy area.
6
7 MR YOUNG: Mr Chairman, tribunal members and members
8 of the public, in response to this process, Hunter Water put
9 out a quite detailed document. It is some 200 or 300
10 pages. I think it is the most comprehensive document we
11 have put out in the history of the organisation. What I am
12 going to try to do in the next 25 minutes is cover some key
13 points in that. I will cover the operating context, an
14 overview of the submission, affordability of customer
15 assistance, Tillegra Dam - quickly - and some funding
16 issues.
17
18 Just by way of overview, Hunter Water covers seven
19 local government areas. They are Lake Macquarie,
20 Newcastle, Port Stephens, Cessnock, Maitland and recently
21 Dungog and we have expanded part way into Singleton. We
22 serve an area the size of Sydney Water and we have about a
23 ninth of the population. So that creates unique challenges
24 in our area in terms of getting to all of our assets which
25 are spread out over quite a large area. I will talk more
26 about that later.
27
28 What we do is deliver clean, safe drinking water to
29 properties, on tap. We collect, treat and recycle
30 wastewater, and dispose of it where necessary. We do that
31 24 hours a day, 365 days a year. Currently we do that for
32 around \$2 a day for each typical household. Most people in
33 the room would be aware that is about the same cost of a
34 litre of bottled water from a shop, and we provide all the
35 water and wastewater services for a home for that same
36 cost. Our proposal is to take that from \$2 a day to \$3 a
37 day, over the next four years.
38
39 Water collection is from four sources. They add up to
40 about half the size of Sydney Harbour. It seems like a
41 lot, but I will show you how that is quite small compared
42 with other areas around Australia and it is very volatile.
43
44 Water treatment: in our pipe system we have about
45 4,800 kilometres, which is equivalent to travelling from
46 Newcastle to Perth via Coober Pedy. With the wastewater
47 system, interestingly there is an amazing number of pumping

1 stations in our area - 385 - compared with most other
2 utilities. There is also a significant number of water
3 treatment plants, again 4,800 kilometres, which would get
4 us back from Perth to the Hunter area.

5
6 Quickly on the national context, I think the last
7 three or four years since the last price path hearing have
8 been a time of unprecedented change in the water industry
9 with drought hitting Australia, climate change coming in,
10 and certainly predictions of growth. The Hunter area is not
11 different. In fact, what we saw in the industry is many
12 utilities that had what they believed was a safe yield
13 getting to the point of running out of water, and that has
14 led to dramatic change.

15
16 The industries responded with \$2 billion in capital
17 expenditure in 2007-2008. I think across Australia there
18 is \$30 billion of investment in water security for the next
19 five to ten years, which again is unprecedented, leading to
20 higher price rises.

21
22 What I have put together in this chart plots Hunter
23 Water's proposal - not the determination but our proposal -
24 in the blue line and I have compared that with Yarra
25 Valley, SE Water and Sydney Water. Sydney Water has a
26 determination one year earlier than us, so I have not put
27 down the projection of what their next price increase will
28 be, but for all of those we are seeing the convergence of
29 prices in about the same spot in the water registry. That
30 is interesting for the Victorians who pride themselves on
31 an area where they are quite dense and therefore they have
32 the strongest economies of scale.

33
34 Most people would have seen this chart, but Hunter
35 Water has a strong history of reducing the household bill.
36 This is in real terms starting in 1991-1992 - about when I
37 joined the organisation, with a number of other people on
38 the panel. What we saw was really a roller-coaster of
39 aggressive cost cutting within the organisation,
40 outsourcing, driving productivity and understanding more
41 about asset management, which hit a low in about 2003-2004.
42 It has increased since then, which has been consistent with
43 the other utilities around Australia in terms of increases
44 in their bills for input costs.

45
46 I think it is fair to say that Hunter Water was one of
47 the most aggressive utilities in Australia in chasing down

1 and reducing costs, but we probably pushed the pendulum too
2 far one way and we are seeing some unwinding in that while
3 still focusing strongly on efficiency.

4
5 This is just a simple comparison of Hunter Water
6 assets. We talked about our operating licence area, but we
7 did a quick comparison of Hunter versus Sydney Water. We
8 probably have about 80 per cent in our water mains per
9 1,000 customers, four times as many water pumping stations,
10 80 per cent more sewer mains, six times as many sewer
11 pumping stations, four sewage treatment plants. While our
12 bills are cheaper than Sydney at the moment, we think they
13 will be close to parity by the end of 2012-2013. But we
14 still have a diseconomy of scale with the customers because
15 of the geography.

16
17 What is behind our prices? We have gone into this in
18 significant detail in this price submission, but it is
19 really investment for regional growth. We are underpinned
20 by over \$1 billion in expenditure, long-term investment,
21 40 per cent of that is for growth in our area and, as the
22 chairman said, regulatory statutory business decisions and
23 government directives. Also we are seeing our input costs
24 going up. We are investing for the environment and the
25 protection of our beaches. We are investing in recycling
26 and also looking at becoming carbon stable in terms of our
27 greenhouse gas emissions. We are investing in new
28 technology, trying to drive productivity.

29
30 During that curve when we were driving costs down, I
31 think there was a lot of low hanging fruit. We need to
32 invest more now to drive further productivities. We have
33 costs involved in maintaining our infrastructure, real
34 increases in operating costs, which you will see across the
35 industry. We want to ensure drought security for our
36 region, because we have a current problem, and we have
37 expanded the area of operations to places like Dungog and
38 into Singleton.

39
40 I put this slide up because it is recent. How we
41 drove costs during the 1990s up to the present day is that
42 we aggressively looked at benchmarking our performance
43 against the rest of the water industries. Each year we do
44 a cycle of civil operations, electrical, customer services,
45 IT, shared services. This has only come out recently, but
46 it is the asset management benchmarking 40 international
47 companies, looking at a rigorous assessment of our

1 investment principles for operations and capital. There
2 are about 1,200 criteria. For asset management - are you
3 making the right decisions? - there are seven criteria.
4 These are the results for our group, the group that is our
5 cohort which is a similar size and has similar
6 responsibilities worldwide.
7
8 The top of the white line is the best result from any
9 utility and the bottom of the white line is the lowest
10 result with the dot being the median result. We were
11 pleased with this because in five out of the seven criteria
12 for asset management, Hunter Water was the best performer,
13 and in two of the criteria, we were slightly under. We did
14 well in asset capability, forward planning, our acquisition
15 of assets, our maintenance, our rehabilitation and
16 placement, and we were slightly under in asset operation
17 and business support.
18
19 I think the strength of the organisation from this
20 result was such that the team said: "What we have got in
21 place is an action plan to move this to higher levels, even
22 in the areas that we currently sit at the top", and I
23 thought that was a strong indictment of the organisation.
24
25 You will see significant increases here with
26 historical and proposed operating costs. I think we
27 overspent by 10 per cent above what the tribunal gave us in
28 the last hearing. If we go into this in more detail, we
29 can see significant input costs for our electricity, our
30 fuel, taxes. Increases in regulation on safety came in,
31 meaning there were costs in the business. For what we went
32 out to the marketplace, we were getting contract prices
33 that were much higher than the CPI than we had allowed for.
34 We had labour force issues coming in and skill shortages
35 driving costs up and the need for us to invest in a team of
36 people to look at continuous improvement and productivity.
37
38 That was looked at by the Tribunal's own consultants.
39 In summary, we were pleased with their overview comments.
40 They noted that Hunter Water's operational structure,
41 systems and processes have been developed and influenced
42 by over a decade of efficiency improvements and that we have
43 implemented a proactive change program. With regard to
44 our expenditures, in consideration of industry benchmarks,
45 they found that our actual water and wastewater operational
46 expenditure in 2006, 2007, 2008 was effective and prudent.
47 So we got some comfort from the external review.

1
2 Looking forward, we still see that there will be
3 increases in our operating costs, but at a much lower level
4 than there had been in the past and we have factored in
5 significant productivity gains that we are not absolutely
6 clear we can get, but we are certainly going for around
7 6 million in productivity, and the increase will be less
8 than the increase in growth; so in real terms we will see a
9 reduction.
10
11 This slide shows the driver for operating costs. Most
12 of the pie is contracts and what we go out for in the
13 marketplace. I think that is my key point. If we are
14 judged well on our asset management and it is seen that we
15 have a strong capability knowing what we should be buying
16 from the marketplace and knowing exactly the volume and
17 specifying what we need, then if we go out to the market
18 with those two combinations, it means that we are buying
19 the right things and we are buying them at the right price.
20
21 Energy is about \$0.6m in the increases above what we
22 increased, materials and salaries going up, and even in
23 that area we benchmark components of that area to make sure
24 that we are driving productivity.
25
26 With capital expenditure, you will see a dramatic
27 change from what we have spent in the past, about \$565m
28 over the last price path to over \$1 billion proposed
29 looking forward, and around \$400m of that is for growth in
30 our area and about \$230m for regulatory and statutory
31 requirements; business decisions under the tribunal's
32 guidelines, about \$103m; \$24m in terms of government
33 programs, the backlog sewerage; and government directives,
34 including Tillegra Dam, about \$380m, making up the
35 \$1 billion.
36
37 You will see it is split, Tillegra and water, in terms
38 of our condition assessment of trunk mains and growth is
39 about half of that expenditure, significant expenditure on
40 wastewater and often the water side has taken up a lot of
41 consideration and comment, the wastewater that we are
42 investing in across the spectrum of all of our treatment
43 plants in terms of growth and upgrades for sensitive
44 waterways and to ensure our beaches remain safe for
45 swimming, recycling coming in more than we have ever done
46 in the past, things like Kooragang Island saving 3 billion
47 litres of water per year; also a number of third pipe

1 solutions for the first time in the Hunter; and corporate
2 is around 6 per cent, things like replacing water meters,
3 IT systems and investment generally.
4
5 I will cover quickly growth, which is underpinned by
6 the Lower Hunter regional strategy, which is saying 160,000
7 more people over the next 25 years. The interesting thing
8 for us compared to other areas is, because we are so
9 diverse, such a wide area, our growth occurs in so many
10 spots across our region and when you have so much growth
11 kicking off in so many locations, Hunter Water is the first
12 in and we need to invest up front looking ahead not two
13 years or five years, but ten years, so that is one of the
14 reasons you will see that our capital program is jumping so
15 much in terms of growth investment, because if those areas
16 start, Hunter Water must come in.
17
18 Price proposals and impacts: I will go through this
19 one by one. On water, we have an existing tariff
20 structure, this has been our focus and I think the
21 tribunal's focus, that for water the major component of the
22 charge should be volumetric. We are proposing an increase
23 from \$1.27 for 1,000 litres to \$2.08 in 2012 because we
24 want to maintain a strong conservation signal. And we are
25 doing minor changes to the location-based tariff, which is
26 only for a very small number of major customers who are
27 close to our water treatment plants.
28
29 We are proposing that we maintain that because of
30 competitive pricing coming in, and I think we were ahead of
31 the game in the Hunter in recognising the potential for
32 competition to cherry pick major customers, so we are
33 proposing to the tribunal that we maintain a location-based
34 price but only for a small number of major customers.
35
36 The bill going up on water, you will see the
37 proportion being usage charges will dominate the bill as it
38 goes forward and we have sought only modest increases in
39 the fixed charge.
40
41 For sewer, there is a major increase in the sewer
42 service charge to cover the things I have talked about in
43 upgrading all of our wastewater treatment plants, investing
44 in maintenance of our trunk mains, sewer mains and pumping
45 stations, and we have recommended for the tribunal's
46 consideration to abolish the very small residential sewer
47 usage charge. We have done that because we believe that it

1 has a low conservation signal. We looked at all the other
2 utilities and it is very rare. The BASIX and rainwater
3 tanks are coming in strongly and what that means is that
4 there is an inequity issue there I think because we still
5 get the same volume of wastewater, it is just we get it
6 from two different sources now, through our meter and
7 through the rainwater tank, and it is not discretionary and
8 we note IPART's previous concerns in 2003 when the tribunal
9 said that it was not convinced that a two-part tariff for
10 waste water was effective and not convinced it was cost
11 reflective. Also the tribunal did not believe it was the
12 most effective demand management tool. So we have taken
13 on board the comments of our customers and the tribunal and
14 looked across Australia and we are recommending that small
15 component be phased out.
16
17 For non-residential it is based on water usage and a
18 discharge factor, so we determined the proportion that goes
19 through the water meter that will go down into the sewer
20 and we are proposing that remains. We are changing some
21 standard industry-based factors. We had some zones. At
22 the moment if you fit into a zone of 76 per cent to 100 per
23 cent, we charge customers 100 per cent, so we assume 100
24 per cent of what goes through the water meter goes down the
25 sewer, and often customers came to us and said, that is not
26 true, because we use some water in our homes. So in this
27 document we have got in detail that we are proposing to hit
28 a mid band for the first time because we have listened to
29 what customers are saying and it better aligns with other
30 agencies.
31
32 The changes to the discharge factors and the increase
33 in the sewer usage will offset each other, so they will be
34 generally cost neutral.
35
36 The environmental improvement charge has been in place
37 for sometime. Really we are just saying that it was put in
38 place for the government to fund backlog sewerage and in a
39 lot of cases we believe, for example, the Hunter sewer
40 project is now fully funded, and we are asking for that to
41 be reflected in a lower charge.
42
43 Stormwater is only a very small number of our
44 customers. We have responsibility only for the trunk
45 drainage and maintenance of trunk drainage assets and we
46 are asking the tribunal to agree that we will complete our
47 proposed transition from property value to area based

1 consistent with COAG and we are asking for only an increase
2 of \$8 over the price period.

3
4 Transition for Dungog Shire coming in: there is a
5 proposal on the table that they would transition over two
6 price paths back to the post September price that all
7 customers in the Hunter pay for, and we did that in
8 agreement with the Dungog Council and the community and
9 really I think that was something that the council now
10 determines was the best way for that area to get sewerage
11 services, including completion of the Clarence town
12 sewerage scheme, which was very important and that was
13 done with community consultation, but we are putting that
14 forward for your determination.

15
16 I will say in the submissions there is some talk that
17 in some areas, Dungog for example, that prices have grown
18 up, and I would say that there is some misinformation on
19 that. Council used to send out a water bill which was just
20 the usage factor but they would also send out a fixed
21 charge which was part of their council rates and wastewater
22 and garbage collection and it was hidden in there, and
23 often we had a lot of calls from customers who said that
24 their bills had gone up, but when we explained, no, that
25 their bills had gone down, they then said they understood
26 it.

27
28 The average household water and sewer bill we are
29 proposing to go up from about \$720 at the moment, about \$2
30 a day, to \$1107, which is about \$3 a day, over the
31 four-year period. Reasons for the increase: you can see
32 are driven strongly by the higher capital investment which
33 is underpinning the increase, slightly offset by the lower
34 volumetric improvement charge. The higher operating cost
35 is 20 per cent of the increase but an amount of that has
36 been locked in already in the contracts we have had in
37 place for the last four years. To maintain the credit
38 rating of 21 per cent, Hunter Water has put forward a
39 proposal for the tribunal to consider a commercial rate of
40 return, we have factored in 7.5 per cent, which is
41 different from other submissions the tribunal has received,
42 but we believe that that will be determined by the tribunal
43 on the factors that are available at that time when you are
44 close to making a decision, and if that was 6.5 per cent,
45 which it is now, that part of the problem would disappear.
46 Tillegra is 9 per cent of the increase and we proposed in
47 discussion with the community new water efficiency

1 programs, 1 per cent of the bill increase.

2
3 Affordability and customer assistance: we have a
4 number of bill payment options available and they can pay
5 by time. We have got the PAS vouchers, the payment
6 assistance scheme. We have put forward a position on
7 pensioner rebates and the government said, no, it will pick
8 this issue up next year when there is greater clarity of
9 the tribunal's determination about our prices and also I
10 think what is happening federally with pensioner rebates
11 for utilities.

12
13 We read the discussions in EWON and others about
14 Hunter Water doing more for kidney dialysis customers and I
15 can say we have taken that on board and we will double the
16 rebate, so that is a decision we have made recently. I
17 think that was a good suggestion from the community and we
18 are picking that up.

19
20 And we have looked at the suggestions from a number of
21 players on the no interest loan scheme and we think that
22 has merit too, so we have been in early discussions with
23 that group and we will follow that through and hope to make
24 some announcement of that in the new year, as we see that
25 has merit. I think our interest in that will be to provide
26 funding in that area that will be self-perpetuating for the
27 future but on the basis that the appliances that are made
28 available have a water efficiency rating at a certain
29 level.

30
31 Quickly, as you said, Chairman, there has been a bit
32 of interest in Tillegra. It is only 9 per cent of the
33 price increase, but significantly more in community
34 interest. The trouble for the Hunter is that we are good
35 in average times such as the present, but we are very
36 vulnerable to long droughts and we have an unsustainable
37 position in the moment and we are expecting increasing
38 climate variability, which is not a debate about whether
39 rainfall will go up slightly up or down slightly, it is
40 really a question that we know for certain that
41 temperatures will rise and we will get longer, dryer
42 droughts.

43
44 Recently the Herald put a story out showing what
45 happens to the Hunter about every 25 years when drought
46 occurs and that Chichester Dam could be described as a duck
47 pond. When drought hits us, it hits us bad. There was

1 described in the Herald our storage chart as being like a
2 seismograph. Our storages go up and down like a builder's
3 elbow depending on what rainfall we get, and if a drought
4 hits every 25 to 30 years we will plummet. We have lost in
5 the past, in a month, up to 8 per cent, which is a
6 frightening concept. In 1979 to 1981 we plummeted in 18
7 months from 100 per cent to 32 per cent and if the rains
8 had not come, we would have run out.

9
10 So if we don't do Tillegra, we will do desalination,
11 which is relevant to how we split the costs. It indicates
12 that we would need to spend at least \$70m to \$80m in the
13 next year, if we didn't do Tillegra, in a desalination
14 plant, planning and testing. Then if this was the 1979 to
15 1981 drought, we would let about 60 per cent go out to the
16 market and we would let contracts for probably about
17 \$1 billion and then, if true to form, after that it would
18 surely rain, but if it didn't rain we would have lost the
19 time to implement drought security to ensure that the
20 community does not run out of water.

21
22 What Tillegra does is it converts the chance of
23 letting \$1 billion contracts for desalination from once
24 every 30 years to once in a million years, which means that
25 we would have a secure water supply for the future and
26 there would be little chance of running out.

27
28 It will come out in the environmental assessment
29 report that Tillegra Dam is a standout in terms of low cost
30 compared to all of the other options. This is a
31 case-by-case assessment that needs to be made. We have
32 looked at an indirect flood wall and major supply
33 alternatives other than desalination and we have looked at
34 how we can crank up water efficiency and water recycling,
35 but we need the supply.

36
37 In some of the submissions it has been incorrectly
38 said that Tillegra will increase our yield by 120,000
39 kilolitres, but it will not, it will be increase it by
40 53,000 to 120,000.

41
42 When we did all the modelling and the yield assessment,
43 our board was very particular about getting external
44 independent review of that. We got two different
45 individuals and companies to review that, who came back and
46 said that our work was appropriate and that the modelling
47 was appropriate, and we are aware that the tribunal also

1 hired its own independent consultants to review all of our
2 modelling and yield assessments, which is appropriate, and
3 we note from the (ed. draft) report that has come out that Hunter
4 Water's yield estimate is reasonable and robust. And with
5 respect to our approach to climate change it is considered
6 appropriate and prudent, so that gives us a lot of
7 confidence that not only from our own independent reviews
8 but from the tribunal that our approach is right.

9
10 Funding: there will be other speakers talking about
11 this today. Tillegra is \$406m. We have split it 40 per
12 cent existing customers and 60 per cent future customers.
13 We believe that there is a strong case for existing
14 customers to pay for Tillegra because it gives them
15 increased drought security more than they have ever had in
16 the past and they will get a strong benefit, so that should
17 be translated into an increased cost in bills. We have
18 calculated that to be \$33.

19
20 The impact on development charges using the tribunal's
21 methodology that is currently in place would be about \$1400
22 per lot. We have not factored in a contribution from the
23 Central Coast at the present time. We have made a
24 statement, I think we are all in agreement, that it is
25 available to them but that if they don't buy in there would
26 be no benefit to the Central Coast from Tillegra. We would
27 love to keep that for ourselves as a cost effective
28 solution for decades to come to serve this area.

29
30 In summary, the existing water usage and service
31 charge is maintained; we are retaining the location-based
32 tariff; there will be an increase in the sewer fixed
33 charge, offset by removal of the smaller sewer usage
34 charge; we have responded to customer feedback on sewer
35 discharge factors for non-residential customers; and we
36 have reduced the environmental improvement charge as is
37 appropriate.

38
39 Given the time, I will leave it at that.

40
41 THE CHAIRMAN: Thank you very much. Before I call on
42 our secretariat to ask some questions, which may need to be
43 supplemented from time to time by tribunal members, I
44 should just clarify one thing: you referred on a number of
45 occasions to the tribunal's consultants. That is a draft
46 report which hasn't been released yet and in fact we have
47 asked the consultants to do some more work on. I am not

1 saying that they will not maintain the conclusions you have
2 stated but there is more work they are doing.

3
4 MR YOUNG: I appreciate that.

5
6 MR REID: As your presentation highlights, you forecast
7 substantial expenditure and associated bill increases for
8 the forthcoming period. One of the graphs you showed
9 indicated that the desalination solution would be 200 per
10 cent more costly than the Tillegra Dam solution.

11
12 If we look at this graph that we have up on the screen
13 now which portrays a similar picture to your own graph, it
14 would indicate that at this point in time Hunter Water
15 relative to Sydney, and to many other water suppliers, is a
16 low cost supplier, and by the end of the price path,
17 including and excluding Tillegra, it would be greater than
18 Sydney Water's prices. Sydney Water's, of course, price
19 path includes the expensive desalination solution.
20 Hunter's excludes the desalination solution, its solution
21 is many per cent cheaper. I am just wondering what you can
22 indicate to us as to what Hunter Water customers are not
23 getting at the moment that they will get in the future for
24 that very substantial bill increase?

25
26 MR YOUNG: There are some good comments there. I think
27 my first comment would be that these things on water
28 security are a case-by-case basis so one solution for one area
29 does not translate into "that is the ready answer" for other
30 areas.

31
32 Kerry Schott in Sydney made the comment, sometimes
33 misquoted, that we are moving ahead with desalination
34 because the days of dams and cheap water are over. I think
35 it is often quoted that Kerry was saying that the days of dams
36 are over. No, her comment was that the days of dams and
37 cheap water are over because there are no locations in
38 Sydney or in other places in Australia because most of the
39 best sites have been taken. That is true, except for the
40 Hunter, where we have Tillegra Dam that has been proposed
41 since the 1950s and we have been buying land for 20 to 30
42 years.

43
44 On a case-by-case basis what does Tillegra give for
45 that increase in prices? It gives existing customers
46 drought security because at the present time we know that
47 we have lived with huge risks in the past and if you talk

1 to previous CEOs of the organisation they say during a
2 summer when the storage drops they are aware that if they
3 don't implement strong drought security measures, including
4 desalination, that you run the risk, if the drought
5 continues, you will just run out of water. And when we
6 looked at the consequences of the city running out of
7 water, it can't be contemplated.

8
9 So what we have done since 2004/05 and 2006 is we
10 looked at our drought management plan and we looked at
11 whether it was robust and we found that it wasn't and, as I
12 said, realistically what we needed to do to combat our
13 current problems is, unlike Sydney, we need to start
14 desalination when our storages are really high, you will
15 see from the graph, at 80 per cent we need to start the
16 desalination work. And the other part which is often not
17 mentioned is that without Tillegra our drought security
18 plan incorporated going into Stockton groundwater resources
19 early, starting planning at 80 per cent. That is also a
20 national park and while I think it is feasible that you
21 could clear parts of a national park to put groundwater
22 sources in, it is very difficult.

23
24 So the answer to the question what do customers get
25 for the money for what we see is a reasonable investment -
26 they get unprecedented drought security for our area and
27 they put in a lower cost scheme for Tillegra compared to
28 desalination which allows us to grow, because our figures
29 on desalination are that it would also cost us - apart
30 from the capital, they are very expensive to run.

31
32 MR REID: The point of the question was that even if you
33 took Tillegra out, Hunter Water's prices could be
34 anticipated to grow higher than what Sydney's are in the
35 same period. So putting Tillegra aside, how do you explain
36 the significant jump in non Tillegra costs?

37
38 THE CHAIRMAN: A significant price with greater security
39 against a Hunter price without Tillegra.

40
41 MR YOUNG: That is a good point. What you are seeing in
42 the Hunter case is that we are investing strongly in our assets
43 and I think we have come to a period in the past where
44 perhaps we haven't invested when we could have done, but
45 what we do know from our asset management and condition
46 assessment is that there is a great need to invest in this
47 area.

1
2 We are also seeing, unlike Sydney, we have more
3 sensitive waterways and we are doing upgrades of our
4 treatment plants. The other factor we have got,
5 particularly on wastewater, is that we are seeing growth
6 occurring across our entire region, which is a bit
7 different from Sydney, and that is driving us. About \$430m
8 of the \$1 billion is for growth in our area in multiple
9 locations and we are followers in that, we are not
10 controllers in that. So it is a combination of
11 circumstances but it is leading us to go up.

12
13 MR REID: I suppose the issue that arises then from that
14 increase in expenditure is, one, the size of that
15 expenditure increase and also the timing of that
16 expenditure increase, whether it has to all be done within
17 this current regulatory period.

18
19 If we look at the figures that you are indicating, you are
20 talking about a labour budget which has grown from \$28m
21 to \$42m, or more than 49 per cent, with over 28 positions
22 being created. If you were to stand back and just say,
23 there has only been minor adjustment to Hunter Water's
24 responsibilities over this period, for example, with the
25 inclusion of Dungog, why should IPART accept, one, the size
26 of the increase and, two, the timing of this expenditure?
27

28 MR YOUNG: We have had a position in the past that we put
29 a lot of our work out to the market and I think
30 increasingly with our capital program in the last year and
31 looking forward we have tried to include more positions
32 in-house because we think, and we know from our data, that
33 it is a more cost effective way as what we see is much
34 higher labour costs from the consultants and external
35 markets. So where we thought there were advantages of
36 bringing it in-house, we have done that.

37
38 We have also invested in continuous improvement. We
39 have put some extra people on to drive continuous
40 improvement changes.

41
42 I would also say, going back to your previous one, I
43 showed you the graph of Hunter Water driving productivity
44 in the organisation and it is much harder for us to do that
45 now than it was earlier, and you would have a better idea I
46 would say of how much is left in Sydney of still driving
47 productivity compared to the aggressive nature of Hunter

1 Water in the past, but we are finding that if we want to
2 move forward and factor in \$6m worth of productivity, we
3 need to invest in that with some people to drive that
4 change.

5
6 MS SMITH: A major component of our operational cost
7 increase over the last four years has been about a 10 per
8 cent increase in total in the cost base over what we
9 proposed back in 2005. We have about a 70 per cent growth
10 in properties that we service as well, so it is really a
11 small net increase. The bulk of that is to do with our
12 input costs. Kevin mentioned earlier that we source about
13 60 per cent of our total operational costs comes from the
14 market that we put out to tender. The majority of that,
15 about 80 per cent, is locked in for the next four years, so
16 we think if we have done the asset management well, which
17 Kevin talked about earlier, and put that to the market,
18 then the contract prices are therefore fixed.

19
20 In respect of labour, the 28 positions also includes
21 taking on the Dungog geographical area, so some seven staff
22 there. About half those positions were to support the
23 capital program we have been investing in over the last
24 four years and we will continue to do. So I think it has
25 been a reasonably modest increase in labour and a small
26 team of four people looking at continuing improvements and
27 within our future operational costs an aspirational target
28 of \$6m that we are hoping that team will help try to
29 achieve in cost efficiencies. We have already included
30 that in our future operational costs so we think what we
31 have put forward is efficient and prudent expenditure for
32 the next four years.

33
34 MR REID: Just coming back to the expenditure in a bit
35 more detail on the capital side --

36
37 THE CHAIRMAN: Before you do, can I ask another question
38 about opex. I do not think we want to micro manage Hunter,
39 its contracts, bringing positions in or whatever. What we
40 are concerned about is the bottom line and that
41 significantly exceeded what we allowed in the current
42 determination and essentially you are proposing substantial
43 increases going into the future, so I got the sense,
44 correct me if I am wrong, from your presentation that some
45 of that projection is based on the experience of the last
46 two or three years. As you put it, you found in the
47 marketplace prices were going up faster than CPI as the

1 basis for the determination.

2
3 I guess all of us would accept that to an extent that
4 the price component - that we probably did underestimate
5 prices back in 2005. Generally our experience has been
6 that construction-type prices tend to fluctuate more than
7 other prices. So in the booms they go up faster and in
8 times of recession they go slower, so that on average, over
9 10 to 15 years, movements in the CPI match those in
10 construction costs.

11
12 Basically there are two things that concern me. One
13 is whether we continue to have that increase in prices.
14 Because we have had this boom for a number of years, no-one
15 is confident, particularly in recent times, to conclude
16 that an extension of that boom might be coming. Secondly,
17 how important is the price movement anyway as distinct
18 from the real increase in operational expenditure? I am not
19 clear why real expenditure needs to increase. You gave us
20 reasons why you have suffered from diseconomies of scale,
21 without putting a figure on what the diseconomies of scale
22 were. But diseconomies of scale have always been there, so
23 I am still left as to why there has to be a real increase,
24 which I am not sure there is, and secondly, even on the
25 nominal increase, I do not regard the recent past as a
26 great guide to the future.

27
28 MR YOUNG: Sharon may wish to help me with that. When
29 we went out into the market for our operational costs, the
30 things that we purchased were much higher than the CPI.
31 Generally Hunter Water has been locking into five-year
32 contracts; so three, plus one, plus one, because we found -
33 and this came from the last price review - that churning
34 the external market all the time was costing money in terms
35 of bringing new people in and getting them up to speed on
36 processes.

37
38 My comment is that a lot of the operational costs in
39 fact that we have now looking forward are based on three to
40 five-year contracts, so that is a commitment. Even if the
41 market does change, we have to write the cheques every
42 month to those companies. Our electricity, which is about
43 10 per cent of operating costs, went up dramatically
44 more --

45
46 MS SMITH: It is over \$1m over the next price path.

47

1 MR YOUNG: We are locked in on that for the next five
2 years, and we went to the market on that. Again those
3 costs are higher and they are locked in higher.

4
5 What you said is true; when we put our submission in
6 September last year, the position was different from that
7 which we face today. But in leading up to that submission,
8 what we found over the past few years was that the mining
9 boom just drained our engineering and our professional
10 resources. You could not get staff for love nor money out
11 in the marketplace. It was a huge skill shortage and we
12 found that we were paying more to procure staff over that
13 time period.

14
15 Chairman, you have the advantage and we hope you have
16 good batteries in the crystal ball when looking at the next
17 three years and how that will change. It is not changing
18 at the moment, but you would have to believe that there
19 would be some softening from what we have been seeing
20 particularly in the last month.

21
22 THE CHAIRMAN: How big is the real increase?

23
24 MS SMITH: Moving forward in the operational costs, we are
25 proposing a 5.5 per cent real increase over the four
26 years; so just over 1.14 per cent per annum. As the person
27 putting the budgeting together, it will represent a
28 challenge because we have not included any impacts from
29 carbon trading in that. The government's mini-budget
30 released last month added over \$1 million in land taxes
31 which we have not factored in. We are still not sure what
32 will happen with the economy and there are the impacts on
33 our contractors' costs as well. All of that is not
34 included, so I guess we are thinking that a 5 per cent real
35 increase over the four years will still be a challenge to
36 deliver.

37
38 MR YOUNG: And accommodate growth as well.

39
40 MS SMITH: Yes.

41
42 MR COX: Can I return to something which Colin asked and
43 pursue it a little further, which is on your capital
44 expenditure. It seems you have very large projected
45 proposed capital expenditures in the next three years.
46 Then we turn to possibly more historic levels in 2012-2013
47 and I think that hasn't been maintained into the future. I

1 guess the question is why does this big burst of capital
2 expenditure need to be done now and can it all be done now
3 efficiently, and particularly given some of the cost
4 questions referred to, would it be prudent to try and phase
5 that program over a longer period of time?
6

7 MR YOUNG: It would be fair to say that in the submission
8 in September, we did realise that it was much higher than
9 we had ever delivered in the past and we were seeing a
10 hotter construction market and we factored that in. It
11 would be interesting to grab hold of the same crystal ball
12 we were talking about with the chairman to see what the
13 construction market will be with the recent downturn.
14 Whether, turning that around, this is the perfect time to
15 go to the market with a capital program when the economy is
16 looking --
17

18 MR COX: You cannot have it both ways; you cannot have
19 both rapidly rising costs and large capital expenditure.
20 That is the difficulty of your position.
21

22 MR YOUNG: Exactly. That is the difficulty, which is why
23 I was explaining the difference between September to now.
24 I would absolutely agree with you, but I would probably say
25 to the tribunal it is also true that you cannot have it
26 both ways in factoring in lower capital costs.
27

28 The underpinning of our capital program is based on a
29 pretty rigorous process in all of our water strategies, all
30 of our wastewater strategies and we have to go out to
31 market at the present time - for example, for our growth
32 studies, for the development community to have them
33 scrutinised. At the moment, using the tribunal's criteria,
34 our proposals for capital works translate into developer
35 charges, so we think that has to be a pretty robust
36 process. All of our models and strategies which are up to
37 date indicate the capital works that we need and the growth
38 area. For Tillegra, we believe the case is we that should
39 do it now because we face serious risks with regard to
40 drought security within the community.
41

42 This is a perfect storm of timing, but you will note for our
43 treatment plants, they are all reaching capacity at the same
44 time, which is unfortunate. On 17 treatment plants, I think
45 you'll see that all of them are reaching the limit on the
46 licences that we have with the Department of Environment
47 and Climate Change. Also we are seeing from

1 the studies that we need to protect the environment and
2 they need to have upgrades; so, across the board, we would
3 see that the timing is right.
4
5

6 MR REID: May I emphasise the size of that capex program.
7 If you exclude Tillegra, we are looking at an increase of
8 26 per cent from what was allowed in the last
9 determination. I think your own figures would indicate, on
10 the third slide, the cost per day is going up 50 per cent
11 from \$1.97 to \$3.03. They are very significant increases.
12

13 MR YOUNG: They are, and I think the question that you are
14 raising is: does Hunter Water have the capabilities to
15 deliver that capital program? I would say not on a
16 business-as-normal approach. Tillegra is a single contract
17 and I think that can be easily accommodated, but most of
18 the wastewater treatment upgrades now require a different
19 approach and we have gone to the marketplace on an alliance
20 contract for the first time, which is similar to other
21 utilities around Australia, where we will put in place a
22 single design consultant construction company and we will
23 have that external audit in respect of price so that we can
24 have a dedicated group of people looking to deliver these
25 treatment plants on time.
26

27 If we don't do that, then we have issues as an
28 organisation and a utility to have our licence criteria
29 signed off with the Department of the Environment and
30 Climate Change and to make sure we continue to protect the
31 environment. We have gone for this technique because it is
32 essential that we deliver these plants in time and that
33 does translate into significant price increases from, as we
34 have said, \$2 a day to \$3 a day. So it is an extra \$1.
35

36 THE CHAIRMAN: Can I pursue that a bit further. The
37 question I am getting at is that you have been driven by
38 licence requirements to make a lot of investment in
39 wastewater treatment. As a layman, it seems funny that
40 there is so much right now to meet licence requirements,
41 just as an aside. I do not doubt personally your
42 capability to carry out the capex expenditure or that this
43 is a good time to do it; it is just that there is the need for
44 so much. The implication would seem to be that you are
45 sailing very close to the wind in meeting your
46 environmental requirements at this point in time.
47

1 MR YOUNG: I think that is a fair comment. In a number of
2 areas we are doing quite well, but we are seeing the plants
3 showing signs of sailing closer to the wind. With growth
4 coming on, that will exacerbate the problem. One of the
5 difficulties from the Lower Hunter regional plan is that we
6 are seeing a significant number of areas proposed to come
7 on board at the same time. The real issue there is can
8 they all come on board at the same time? The big winners
9 in that area in what we are doing is to say that if new
10 areas are approved by councils and get rezoned and they are
11 ahead, then we have to be in that game. We are seeing that
12 in multiple sites, more so than at any time in the last
13 decade. That is leading to our needing to increase not
14 only our growth component for new water mains and sewer
15 mains but also importantly the wastewater treatment plants
16 to meet that growth if it comes on.

17
18 MR REID: One of the other submissions highlights that the
19 New South Wales Department of Planning, put out a new
20 forecast in October which is now predicting a lower rate of
21 growth for the Hunter than previously. Have you done some
22 refiguring to estimate the consequences for your
23 growth-related program as a consequence of those slower
24 population forecasts?

25
26 MR YOUNG: That is a good question. I think the regional
27 strategy said 160,000 over the next 25 years and that is
28 still locked in. When we did all of our growth projections
29 we decided that, at least for the foreseeable future, we
30 would base our growth on historic levels. We didn't factor
31 it in immediately that we would ramp up the amount to
32 160,000 over the next 5 to 10 years; we based it on what we
33 have seen in our past and we thought we would do that on
34 the basis of our prudent approach to factoring in growth.
35 We still believe that, in 25 years, we will get to the
36 160,000, but we have factored in historic levels for us to
37 do our planning for our capital.

38
39 That was reviewed by the consultants, and I appreciate
40 that is a draft review, but they said it was prudent and
41 appropriate that we did that rather than overestimating
42 growth in the earlier stages when we are making decisions.

43
44 MS CHADWICK: As you know, IPART generally sets usage
45 prices on the basis of long-run marginal cost which is not
46 the basis that was used in your submission for the
47 calculation of usage charges. In the case of the most

1 recent Sydney Water determination, IPART calculated the
2 long run marginal cost with reference to the desalination
3 plant that is being built at Kurnell. Would Hunter Water
4 oppose the use of long run marginal costs with a
5 calculation of usage charges for the upcoming regulatory
6 period and could Tillegra be substituted for the
7 desalination plants in that calculation? With regard to
8 the period beyond the completion of the Tillegra Dam, could
9 you provide us with information about what you believe the
10 next supply augmentation will be and when you think it will
11 be required?

12
13 MR YOUNG: Hunter Water is seen as virtually all
14 economists. As you know, I am an engineer. David Evans
15 often said to me, "As an engineer, it is important that you
16 do not delve too far into the art of economics without a
17 safety line or a safety net." I have always taken that
18 advice. But, in principle, I will make a number of points
19 about setting the long run marginal costs for the Hunter.

20
21 I think Sydney's approach was to set the long run
22 marginal cost based on the next augmentation of Sydney.
23 Because their current plan will have all the inward
24 pipework and outward pipework and everything set up all
25 they needed to do is put in the filtration modules; so that
26 is how Sydney put its desal plan in to incorporate long run
27 marginal costs and it was set.

28
29 In Hunter's case it is an interesting issue and it
30 goes to the heart, we believe, of the Tillegra Dam to focus
31 on a backlog for existing customers and for those in the
32 future. We have looked at Tillegra Dam providing drought
33 security for this area for 50 years. So the question is:
34 what is the next level of augmentation? If you have a look
35 at Tillegra, it is upcoming and we have not got it yet.
36 That is the first comment I would make.

37
38 Luckily I do have plenty of good economists in the
39 organisation who have run the different models on long run
40 marginal costs. What we are thinking is that our water
41 usage price of about \$2.09 in 2012-2013 represents about
42 the mid-point of the different models we can run on long
43 run marginal costs. What they tell me is, depending on the
44 calculation, if we pick the top of this range, and set
45 water prices based on that, we will oversubscribe in terms
46 of the revenue that we are getting.

1 Even if we dropped the fixed charge to nothing, at the
2 end the year we will have more money left, then I suspect
3 we could send Christmas vouchers out to our customers
4 because we have collected more revenue, and that would be
5 unusual for us to do; so we think it is about right in
6 terms of setting the price of \$2.09.
7

8 The last part of your question was what do I believe
9 will be the next augmentation in the Hunter after Tillegra?

10 It will be probably around 2060. I am hoping that if we
11 put Tillegra in place and we drive recycling further and
12 technology and water efficiency, we can drive Tillegra even
13 further into the future. So rather than 2050, 2060, we can
14 drive it even further. I suspect - and I am a believer and
15 will go on record in saying this - that in the future with
16 improvements we will be highly energy intensive and we will
17 be treating wastewater to become drinking water and we will
18 be drinking it. I've done that publicly at different
19 meetings from bottles of Singapore water. So I'm a
20 believer. Let's all get into it.
21

22 MS CHADWICK: You have stated in your submission and in
23 many newspaper articles that have been reported in the
24 Newcastle area that, for the average residential customer,
25 the bill impact of Tillegra will be some \$33 a year and
26 that the remainder will be collected through developer
27 charges. Given developer charges will be recovered over
28 time at Hunter Water's proposed rate of return, this figure
29 appears to be somewhat of an underestimate. What is Hunter
30 Water's revised impact of the total for Tillegra Dam for an
31 average residential bill over the next four years?
32

33 MR YOUNG: I think we calculated the charges for impact of
34 Tillegra Dam the same as the tribunal. We included
35 Tillegra Dam, and we took out Tillegra Dam in the financial
36 model.
37

38 MR AMOS: In calculating it, we basically did a building
39 model run, a financial model run without Tillegra Dam
40 capital expenditure in it and without the contribution from
41 developer charges, and we did one and then compared the
42 building patterns in that without situation and that came
43 down to \$33 in 2012-2013.
44

45 As far as developers charges go, we simply applied the
46 standard developer charge spreadsheet that the tribunal has
47 endorsed. That works out at a developer charge component

1 of about \$1,400. Until that methodology changes, and it
2 may well have changed given the current tribunal review of
3 developer charges, that is the calculation of developer
4 charges using that method.
5

6 MS CHADWICK: To clarify, the \$33 then includes Hunter
7 Water's estimate of the rate of return on the Tillegra
8 investment spread out across the residential customers.
9

10 MR YOUNG: That is true, and I think the only issue would
11 be what is the Tribunal's decision on where rate of return
12 would come in, which would also impact on that in the long
13 run? But if it stays at 6.5 per cent, it will be \$33; if
14 it goes up, it will be more. I think that is the same for
15 all of our capital works and impacts.
16

17 MR REID: Given the substantial impact of your capital
18 expenditures, particularly within this current proposed
19 price path, has Hunter Water given any consideration to
20 other approaches which may include, for example, deferring
21 and maintaining within the regulatory asset base some of
22 the capital expenditure so as to attempt to alleviate the
23 impact within the next regulatory period?
24

25 MR YOUNG: It was a tough call. When we went out and
26 put this price submission in, we realised that bills were going
27 up, and no-one likes increases in prices, that is
28 absolutely true. We also realised that there is a cost to
29 invest, and we are strongly of the view that there is a
30 cost not to invest. From our asset management, from what
31 we are seeing from all of the studies that we are doing,
32 there is a cost on this community and our business in not
33 investing, so we have put forward what we think is the
34 right outcome for this community, which is investing now
35 rather than deferring and having it become quite costly in
36 the long run. So, yes, it is significant increase in
37 costs, but we think it is robust and it is a case of if you
38 do not invest, it will cost you more.
39

40 THE CHAIRMAN: Can I just come in on this? I don't think
41 we are saying that you shouldn't invest. But some of this
42 investment is to take account of future growth. However,
43 till that growth occurs, at present householders
44 effectively have to service the cost of the capital. That
45 question doesn't ask whether you should invest, but in
46 other industries where infrastructure is critical where
47 investment occurs in expectation - for example, an oil

1 pipeline, a gas pipeline - the repayment schedule, if I can
2 put it that way, the recovery of that cost, is not even
3 over the life of the asset. It is loaded in later on as
4 the growth occurs. I think the question for us is whether
5 something along those lines, at least in respect of the
6 growth component, would be appropriate.

7
8 MR YOUNG: And we will critically do that. That is a good
9 point. I think that is part of the process in the
10 organisation, but I will make two points. One is if you
11 have some assets like the treatment plants that are nearing
12 the need for augmentation, you will not just upgrade them
13 on the basis that they will only last a few years, and then
14 you will take another look. Once you have done all the
15 economics of that, there is such a strong economy of scale
16 that you do need to invest probably for 10 years out and
17 you do your best estimate for that growth component. So
18 for us to defer any significant allowance for growth would
19 be costly to the business; but generally, where we see
20 growth slowing down and there is not a need, we will defer
21 and we will respond to that.

22
23 In cases where there are new land releases coming out
24 and it has been rezoned and there are houses coming on, we
25 will do the best estimate we can. The trouble is we
26 generally find we need to be in there with a certain
27 minimum size.

28
29 MR REID: I think the question that is being asked is a
30 little bit different. The question being asked is not when
31 you incur the expenditure but when you recover the
32 expenditure and tying it to asset utilisation.

33
34 MR YOUNG: That is a great question. I guess I would
35 throw that back to the tribunal, which is a classic
36 question for how do you determine "developer charges"? I
37 know you are doing a major review at the moment, but there
38 are a number of models to do this and I would be really
39 interested to know, when you are determining the developer
40 charge methodology, if there are some other techniques to
41 do this because, at the moment, it seems when we follow the
42 IPART methodology that we go in and invest early and we
43 pick it up only through the development of the lots over
44 time.

45
46 There are a number of other models that could be
47 considered, but they're not available to us. At the

1 moment, for example, developers could also make some
2 up-front payments for future stages. I am sure the next
3 speaker would have some interesting views on that because
4 the development community would also say they are
5 struggling in terms of getting credit at the moment and in
6 terms of how they can cost effectively move forward.

7
8 MS KRIEGER: Can I just ask a follow-up question about
9 that. Developer charges are one aspect, but there are also
10 possibilities in how you depreciate those assets once you
11 construct them. If you normally depreciate them on a
12 straight-line basis, you could depreciate them on a
13 different profile and get a significantly different outcome
14 to match the benefits of utilisation.

15
16 MR YOUNG: That would be true, but I think we are limited
17 in how creative we can be on depreciation techniques.

18
19 MS SMITH: We are constrained in the depreciation that we
20 use for pricing purposes and the need to follow the
21 appropriate accounting and other standards. In terms of
22 the physical depreciation of those, we have fairly
23 extensive asset management strategies around what gives
24 useful life and how to manage that in a physical real cost
25 sense.

26
27 THE CHAIRMAN: I just pointed to the parallel of a gas
28 pipeline, which is underutilised in its early years and how
29 that not only is it sometimes financed and depreciated
30 where it is privately owned, but also there are some
31 regulatory precedents as to how it should be depreciated
32 for regulatory purposes.

33
34 MS SMITH: In our case, chairman, once the asset is in the
35 ground and it is in use, in service, then the depreciation
36 commences from there. There is a life determined and they
37 generally are long-lived assets. Under the standards, the
38 appropriate way to do that is on a straight-line basis.

39
40 MR COX: As you can see, there is some interest on the
41 part of the tribunal in thinking about not the cost that
42 you can recover now but something that might be recovered
43 later. In thinking why that might be a good idea, it
44 occurs to me that the costs of Tillegra Dam will enter the
45 RAB immediately. There is a growth offset for developer
46 charges and that will come later. In the meantime, the
47 existing costs of Hunter Water are paid, if you like, for

1 the return on capital for the whole of that investment.
2 You might wonder if that is equitable. I think those sorts
3 of concerns lead to us think about whether there might be
4 an initial possibility for cost recovery. The question is
5 what the implications for Hunter Water will be if it goes
6 down that path. That is something we need to consider.
7
8 MR YOUNG: My view is we are the regulated and not the
9 regulator. We are always appreciative of the tribunal
10 delving into these tricky issues and coming to a
11 determination that we will follow. Obviously the
12 implications of not putting it all into the RAB would be
13 that it would lead to lower prices in the beginning and we
14 would catch up in the end. That would be one of the more
15 tricky things that you would need to determine as part of
16 this price path. It puts us in an unusual position. We
17 appreciate the position the tribunal is in in determining
18 this.
19
20 THE CHAIRMAN: It is a very unusual price increase that we
21 are being asked to approve.
22
23 MS CHADWICK: One of the aspects of your submission that
24 has received a fair of stakeholder attention is the
25 proposal to apportion Tillegra's costs. One of the
26 questions that stakeholders have raised in their
27 submissions is the basis of the 60 per cent allocation to
28 growth. Could you explain why that is an appropriate
29 split?
30
31 MR YOUNG: I notice from the submissions that there is a
32 spectrum of views on allocation of cost out in the market
33 place from 100 per cent to existing customers to 100 per
34 cent to growth and Hunter Water is somewhere in between.
35 That is again an important issue for the tribunal to look
36 at.
37
38 We determined that we have a drought security issue at
39 the moment and that Tillegra will solve that and therefore
40 rightly that should be paid for by existing customers and
41 how much of Tillegra should existing customers pay for that
42 drought security they are getting that is an advantage to
43 all customers and what we calculated, or the technique we
44 came up with, was to look at what we would do in terms of
45 getting that security increase with no growth and through
46 desalination and we did our calculations on that and
47 modelling and that can be reviewed by the tribunal. But it

1 indicated it was about 40 per cent, depending on the
2 assumptions that you make.
3
4 We welcome the tribunal going through those
5 calculations and those assumptions. So about 40, 50 per
6 cent is where we came around, then we have simply said, the
7 rest should be paid for by growth. That is what we
8 determined as the equitable way forward but we appreciate
9 again you will review this and come to a conclusion.
10
11 MS CHADWICK: Moving to a slightly different topic, your
12 submission suggests that a 1 per cent discount of Hunter
13 Water's proposed rate of return of 7.5 may be appropriate
14 as market conditions are volatile. What is your current
15 view of Hunter Water's rate of return?
16
17 MR YOUNG: Our current view - the team might help me - is
18 that the tribunal set a rate of return of 6.5 per cent which it
19 said at the last hearing was appropriate. We viewed at
20 the time we put the submission in that an appropriate
21 rate of return was 7.5 per cent. That was indicative
22 of the tribunal's determination of Sydney Water's prices
23 which was done just before that, and so in September we
24 looked at what the tribunal had done in June and we
25 thought, well, we will adopt that.
26
27 Having said that, since we put the submission in we
28 have seen some softening in interest rates but we have also
29 seen some hardening for capital and we believe that they
30 currently probably offset each other, so it is still
31 probably about right. However, I suspect that next March
32 or April will be different from where we sit in November
33 and we would expect the tribunal to examine how quickly
34 funds start to flow in that time period and what the
35 respective levels of risk and interest are and whatever the
36 figures are we would expect the tribunal to make a
37 judgment. So that would be appropriate, but we would be
38 factoring in there is a softening of the market and lower
39 interest rates and I suspect funds would start to flow which
40 could have an impact, which should mean lower prices.
41
42 MR REID: Can I clarify whether there is an expectation
43 that IPART will determine an interchange price of water
44 between Hunter and the Central Coast from 1 July next year?
45
46 MR YOUNG: There is an expectation that you will set the
47 interchange price of water from the Hunter to the Central

1 Coast. When the Central Coast came to us, I think it was
2 at 20 per cent, they were in trouble and we agreed we would
3 put a connection in, and we did, and Hunter Water put money
4 into that, and significant money from the Central Coast and
5 the Federal Government, and we did that because we saw
6 there was a strong need to help a neighbour. We set prices
7 at the time just based on the retail price and as that
8 progressed we actually gave a discount to our neighbours,
9 which is in place today.

10
11 We do expect that the tribunal will look at what is an
12 appropriate mechanism for transferring water. At that time
13 it was like being joined at the hip to a drowning person
14 and we were trying to help them out and I think we did the
15 right thing and that if it wasn't for the Hunter, they got
16 to 13 per cent, they would have got to ten, so they may
17 well have run out.

18
19 It is a difficult area because you would want to set
20 pricing of transfers that will facilitate equitable sharing
21 of costs and also an equitable use of all existing
22 resources. There are issues of Tillegra coming into that,
23 and we have said to the Central Coast that if they don't
24 want to contribute to Tillegra on an equitable basis then
25 we can factor in no benefit to them. That can be done.
26 The interesting issue is when Hunter storages are high, the
27 mechanism should be that it should allow for any transfer
28 to the Central Coast. That seems to me to be an economic
29 principle, that rather than spilling water you would allow
30 transfer.

31
32 At the other end of the spectrum, when Hunter storages
33 were dropping, we would argue the case that if our
34 neighbours were in trouble, if they faced very high cost of
35 drought security measures, therefore the price should be
36 higher. At the moment we have done a very simplified
37 approach that just sets one unit price for all those
38 circumstances and there is an issue there about scarcity
39 security pricing of water, how that is supplied. It is a
40 difficult issue which we are hoping the tribunal can give
41 some consideration to.

42
43 MR AMOS: One other aspect is that probably the main
44 difficulty with setting a price for the Central Coast is
45 actually working out what the level of sales will be over
46 the next few years. If it is going to be included in the
47 regulated price set, you have to have some projection of

1 what the revenues will be and the sales estimate is
2 something that is really difficult to do.

3
4 At present the Central Coast's storage levels have
5 recovered significantly and it is quite possible they may
6 take very little or no water over the price path period,
7 but if seasonal conditions change dramatically they may
8 take some. So the difficulty is working out what the
9 revenue contribution will be from the Central Coast in
10 setting that price and how to fix it into Hunter Water's
11 total revenue and how that then affects other prices for
12 the Central Coast.

13
14 MR YOUNG: A good point. It is unusual.

15
16 THE CHAIRMAN: Can I just interrupt to say that if IPART
17 sets the price, we would expect to get a submission from
18 the various parties, so we look forward to getting your
19 submission on scarcity pricing in due course.

20
21 MR YOUNG: It is dangerous ground for an engineer, but we
22 will do our best.

23
24 THE CHAIRMAN: Thank you very much for that. It has
25 been a fairly searching examination I think. We are running
26 well behind time, which is our fault, not Hunter Water's
27 fault, but I think it was important that we did conduct
28 this searching examination.

29
30 SHORT ADJOURNMENT

31
32 URBAN TASKFORCE

33
34 THE CHAIRMAN: Mr Gadiel, thank you very much for
35 attending, if you will just give your name and organisation
36 that you represent.

37
38 MR GADIEL: Aaron Gadiel, chief executive, Urban
39 Taskforce. Thank you. I come here today representing an
40 organisation which in turn represents the major property
41 developers in Australia and in particular the major
42 property developers here in the Hunter.

43
44 We have some significant concerns about the submission
45 that Hunter Water has put to the tribunal and let me make
46 it clear that we don't have a problem with the construction
47 of Tillegra Dam. As an industry we support government and

1 government-owned corporations making significant
2 investments to provide for the future. We are even happy
3 for government and government corporations to take a risk
4 adverse approach and make very significant investments for
5 infrastructure.

6
7 What does alarm us, though, is when it is proposed or
8 flagged that those infrastructure investments will be
9 funded to any degree, but particularly to a significant
10 agree, by narrow-based taxes which can have extreme
11 extortionary effects on local economies.

12
13 The proposal to fund Tillegra Dam to the tune of \$251m
14 by developer charges is such a measure. We have not seen
15 its like before. There has never been a proposal in this
16 state to fund such a major piece of headworks from
17 developer charges in this way so it will certainly be
18 ground breaking if the tribunal signs off on this approach.

19
20 We have a number of layers to our concerns or our
21 arguments but our first and primary argument is that
22 Tillegra Dam is not and has never been primarily about
23 population growth. It has always been driven as a measure
24 to provide water security and drought proofing. Population
25 growth has only ever been a footnote in this debate until
26 this regulatory process started before the tribunal.

27
28 I do not think I need to go much further, we have
29 submitted about this to the tribunal, but before I even
30 look at that I cite the document that Hunter Water
31 prepared, which said on page 11 that a 10 per cent decline
32 in rainfall has a significant impact on storage levels and
33 duration of water restrictions imposed on a community.
34 Then in the same series of paragraphs it says that the
35 addition of 160,000 people in the Lower Hunter generally
36 does not have a significant impact on storage levels - so a
37 qualification - except during the severity of falls in the
38 three severe droughts of the 1940s, the 1960s and the early
39 1980s.

40
41 The significance of a ten per cent decline in rainfall
42 is because the CSIRO has done a study which says that that
43 is the sort of tolerance that might be allowed for climate
44 change. So essentially in the words of Hunter Water - and
45 this is one source, there are many other sources that can
46 be cited, I will not try to cite them all, they are in the
47 submissions - declining rainfall has a significant impact

1 on storage levels, growth does not have a significant
2 impact unless we are in a time of severe drought.

3
4 I submit that is tantamount to saying that the dam is
5 about drought proofing and protecting against climate
6 change more than anything else.

7
8 Another organisation with some credibility that has
9 made a submission to you, in fact I think very eloquently,
10 is the New South Wales Government's own hand release
11 agency, Landcom, and it has done a very high level
12 intelligent analysis of all the statements made by Hunter
13 Water prior to this regulatory process commencing which
14 very clearly points to the fact that Tillegra Dam was
15 always about providing certainty and water security for the
16 existing population on the Central Coast and the Hunter
17 more than it was ever about population growth.

18
19 Why is this significant? It is significant because
20 Hunter Water is basing its rationale for recovery of costs
21 of Tillegra Dam on this assertion that 60 per cent is
22 attributable to population growth - it has said that
23 development is contributing to that, something that we will
24 dispute that I will get to shortly, which is inconsistent
25 with previous statements. How do they come up with this 60
26 per cent? The way they came up with it - they claim in
27 submissions to your review to development charges
28 previously - by using the saying, "if a dam is about two
29 things, it is about drought security and it is about
30 population growth", and you can get a proxy for population
31 growth by working out the capital cost of the alternatives,
32 so a proxy for drought security by working out the capital
33 cost of measures that are solely about drought security and
34 then the rest is for growth.

35
36 I would submit that if you take that kind of model, the first
37 thing you would need to do is work out what the proxy -
38 what measures you would have if you were only going
39 to deal with growth and not deal with drought security.
40 There are two sides to the coin.

41
42 Given that they have not done that second exercise,
43 they have not said, look, we have only dealt with the need
44 for growth and not for drought security/climate change,
45 what would the capital expenditure be then? I submit it
46 would have to be less than \$141m because in their own
47 extensive documentation they have said that climate change

1 and drought proofing is a bigger issue and has more demands
2 than planned population growth. I am sure they will say,
3 yes, but once you spend \$141m, that is the lower-end
4 increase, that as you incrementally go above that the
5 marginal additional costs of providing additional security
6 rises - we have not argued that, I am sure that is true -
7 but who says that the first lump sum expenditure has to be
8 for drought security and that the second more expensive one
9 has to be for growth? Where is that written?

10
11 There is no logic to saying that the more expensive
12 incremental expenditure should be attributed to growth and
13 the less cheaper expenditure should be attributed to
14 drought security. So essentially that methodology or that
15 model does start to break down because what you probably
16 end up with is a total series of costs that are much less
17 than the costs of Tillegra Dam.

18
19 The tribunal in its draft determination on developer
20 charges came up with a different model and even had a
21 proposal or a case study. The interesting thing about that
22 particular case study was a hypothetical desalination plant
23 to provide 80,000 megalitres of water and the case study
24 very neatly said that 40,000 is attributable to growth and
25 that 40,000 is attributable to security and then worked
26 forward looking at new stocks of housing and then
27 apportioned it out.

28
29 The thing about Tillegra Dam is that it may well be
30 that a very large proportion of it will not be attributable
31 to either in that sense because we could be talking about
32 capacity that is so far out into the future that it cannot
33 be fairly attributed in that sort of way to anything. I
34 suppose that leads the tribunal to question who funds that?
35 Does the government fund it or is it spread evenly and
36 equitably across all ratepayers? We are relaxed about that
37 as an industry but what we do say is that you cannot fund
38 it by levying quite a narrow taxation base, which is
39 developer charges, and we should also add that clearly the
40 Central Coast is a major beneficiary to the dam and that it
41 needs to be included.

42
43 I mentioned a few times the issues about funding
44 things through developer charges and that it is a narrow
45 taxation base and a distortional taxation base. It is
46 important that I just talk a little bit about that. Hunter
47 Water says the charge for each home will be \$1400 when they

1 apply that. We do not need how they calculated that. That
2 has not been submitted by them in their public submissions
3 to the tribunal. Certainly when we do our
4 back-of-the-envelope calculations we come up with \$2800 per
5 dwelling, and we would love to see how they came up with
6 that figure precisely, and in particular we would like to
7 see what dwelling forecasts they have made because we have
8 obtained our own dwelling forecasts and provided them to
9 you from BIS Shrapnel which suggest home production of 4600
10 dwellings a year, although the forecasters are saying it is
11 very difficult for anyone to forecast home production at
12 the moment because we are in the midst of a fundamental
13 reshaping of credit markets and that is having a massive
14 effect on home development in Australia but in particular
15 in New South Wales.

16
17 So even the prospect of this charge has been a
18 significant disincentive for developers to proceed with
19 projects in the Hunter today. Only yesterday I was
20 speaking to a developer who said they would not proceed
21 with a development, that they could not obtain financing at
22 the moment for the Hunter, in part because of the
23 uncertainty about the prospect of this charge. Even if
24 this charge is not introduced, and if this dam blows out in
25 costs, will developers in fact end up paying more because
26 of this idea that developers are somehow responsible for 60
27 per cent of the costs of the dam?

28
29 In our submission, I will not try to summarise it will
30 all, but in table 12, the BIS Shrapnel submission we
31 submitted, we do give an indication of the profit margin of
32 developers with the current cost base in the Hunter. You
33 will be shocked, I think, when you see how low it is. The
34 developer margin is 2.8 per cent, which is less than \$5000
35 for the example used of Maitland. It might cause you to
36 say, these figures can't possibly be right, that is very
37 low, developers only making a profit of \$5,000 on a home
38 lot, but it is actually the figure and it is in part the reason
39 why we have at the moment in New South Wales record
40 low levels of housing production and in fact the production
41 of houses in New South Wales has been in consistent decline
42 for six years straight while in other states until the
43 recent credit crisis it had been rapidly escalating upwards
44 in the same period.

45
46 Yes, we have an extremely unprofitable or low
47 profitable development industry. It cannot absorb this

1 additional charge and home buyers cannot pay it, in
2 particular because at any given point in time of the amount
3 of housing stock that is available on the market new
4 housing stock is only a small proportion of the housing
5 stock. The price is set by and large by the existing
6 housing stock and the supply of that, not by the
7 availability or non availability of new housing stock, and
8 the borrowing capacity of buyers.
9
10 In any event, even if you take the view that - let me
11 add one other point because I know it has come up before,
12 that surely what will happen is if the home buyer can't
13 afford it and the developer can't afford it, the charge
14 will get passed back through to the original landowner.
15 That is not always possible. Often the developer already
16 has agreements with the landowners and these sorts of
17 charges can't come in and get imposed in the midst of
18 long-running commercial arrangements that might date back
19 several years, so you can't escape the fact that there
20 might well be agreements and all that happens is nothing
21 happens when charges like this come in.
22
23 Secondly, these landowners usually acquired their land
24 a long time ago, hold them without debt and aren't any
25 pressure to sell and are happy to be patient as they have
26 very fixed expectations about the prices of their land.
27
28 Thirdly, our great ally is the planning office because
29 planning laws give incumbent landowners significant
30 disproportionate market power when developers negotiate
31 with them. When the planning system says this is the
32 release area here, here and here, developers are unable to
33 find a cheaper place, so if charges are slapped on which
34 make the purchase for the development unsustainable, the
35 development hangs, the planners just say, it is cyclical,
36 you will just have to wait for the next boom. That boom is
37 much further away because of the presence of the charges,
38 and of course those charges accentuate the boom-bust cycle
39 that we have.
40
41 Even if in some way, you could argue that home buyers
42 could afford to pay for this additional charge, they should
43 not have to. There are 100,000 homes in the Hunter. They
44 are occupied by only one to two people. These are homes
45 with two, three or four bedrooms. That population is
46 ageing. The most likely thing that will happen there is
47 that many of those people will downsize their homes, use

1 the sale of their existing housing stock to finance their
2 retirement, and will purchase newer medium or high density
3 housing stock - seniors living type of thing.
4
5 Under Hunter Water's proposal, they will then bear the
6 burden of this Tillegra Dam development charge when it is
7 passed through to them, if they can afford it. The people
8 who are actually responsible for the growth, if anyone can
9 be responsible for the growth in that way, the young
10 families, will often be moving into this existing
11 underutilised stock of housing. It does not seem equitable
12 that long-term Hunter residents who will be paying their
13 water rates perhaps for the next five years in their
14 current home and who then move into a new home will get
15 slugged the charge to fund Tillegra Dam, and then continue
16 paying water rates in their new home, which, by the way,
17 also carries a contribution for the Tillegra Dam.
18
19 In summary, Tillegra Dam is primarily about drought
20 security, protecting the community from the problems of
21 climate change. New home construction is not a proxy for
22 population growth, so slating home a charge to new homes on
23 the basis that new homes represent growth is a mistake.
24 The most equitable method of funding Tillegra Dam would be
25 a charge that is applied uniformly to the Central Coast and
26 the Hunter existing households, which, by the way is what
27 has happened with the desalination plant.
28
29 If I might digress just for a brief second, the New
30 South Wales government told the tribunal at a previous
31 point in relation to the desalination plant that the cost
32 of that plant should be recovered from Sydney Water prices.
33 That was also the final upshot; the desalination plant is
34 not cost recovered through DSP charges.
35
36 The rationale that the tribunal advanced in the year
37 2000 for headworks being recovered in part or in whole from
38 DSP charges was to send a price signal between different
39 regions about the respective costs of headworks, that
40 rationale falls down, if in Sydney Water, which is having a
41 very significant addition in terms of headworks, DSP
42 charges are set at zero re, appropriately, I should add, as
43 far as the Sydney Water plant is concerned. But here in
44 the Hunter, 60 per cent of the costs of these new works
45 will be slated home to developer charges, so that original
46 rationale falls down.
47

1 We do not think that headworks should be funded in
2 this way by developers and the customers of developers, who
3 are the home buyers, because it is not equitable.

4
5 I should finish by observing that there is a
6 deficiency of housing in the Hunter already; it is 2,800
7 homes short. The imposition of that charge will make the
8 stock deficiency worse. It will mean that, more than
9 likely, the Hunter will join other parts of New South
10 Wales, where the housing industry is already in recession,
11 and it may well mean that that recession will be longer and
12 deeper than it otherwise would be if the charges were in a
13 more broad-based fashion, thank you.

14
15 MS CHADWICK: In Hunter Water's presentation, they
16 covered the extent to which their capital works program is
17 driven by the driver of growth and their need to provide
18 infrastructure in advance of new development. Your
19 presentation paints a somewhat different picture of the
20 prospects of growth over the next four
21 years. I wonder if you have any comment on the likelihood
22 that that extent of investment is required over the next
23 four years.

24
25 MR GADIEL: The people who said it best are Landcom.
26 They are the government's own land release agency. In their
27 submission to IPART, and I cannot say it better than them,
28 they looked at why there was this shift in position from
29 Hunter Water. It was initially very, very comfortable with
30 the direction the government was pursuing in terms of
31 growth strategies and growth markets. They said, "No, we
32 do not need Tillegra Dam. We can do all this without
33 Tillegra Dam."

34
35 They have previously said in a submission to the
36 tribunal - I think it was in relation to developer
37 charges - that the reason they changed their view on that
38 is because there was a difference between the draft
39 development regional strategy and the final Lower Hunter
40 strategy where the population was originally projected to
41 be 125,000 and then it was changed to 160,000. They said
42 that represented a difference. That was in their December
43 2007 submission to you.

44
45 As Landcom observes, if that is the reason for the
46 difference, that is approximately 7 per cent of the total
47 population of the Lower Hunter and the Central Coast region

1 is by 2031. Again Landcom observes that it means that the
2 dam does not actually need to come on line, if it is about
3 population growth, until the final stages of the
4 anticipated growth scenarios.

5
6 Essentially, if this dam is about population growth,
7 it is not required for the population growth that we see
8 coming on line in the next 5, 10, perhaps even 15 years, so
9 I think that answers your question.

10
11 There may well be a need for this dam now because of
12 the drought security and protecting against climate change.
13 We are as concerned about that as anyone, but that problem
14 is a problem the whole community shares. By the way, we
15 also think that growth is a problem the whole community
16 shares. As I said before, new housing construction is not
17 a proper proxy for population growth. You cannot tag some
18 people for it and not others.

19
20 MS CHADWICK: Putting the question of Tillegra to one side
21 momentarily, there is also very significant investment in
22 the wastewater infrastructure that Hunter Water have
23 proposed in their submission. If your portrayal of the
24 likelihood of growth in the Hunter is accurate, do you
25 think that the growth
26 investments that Hunter Water is undertaking in other parts
27 of its system are warranted within the next four years?

28
29 MR GADIEL: I am not trying to suggest that Hunter cannot
30 and shouldn't have its fair share of population growth. I
31 think there are good prospects for the Lower Hunter to
32 enjoy some strong population growth in the coming years. I
33 am not in any way trying to suggest that, even if there
34 will be a low growth scenario in the Lower Hunter, I would
35 be the last person to say that Hunter Water or the state
36 government should start planning for a low growth scenario.

37
38 I do not have any particular comment on the other
39 infrastructure programs that Hunter Water is pursuing. I
40 do, as a general matter, take the view that the growth of
41 the Hunter population is very good for the Hunter. It is
42 good for the economy. It is good for the vibrancy of the
43 region and we certainly want to see infrastructure that
44 supports that.

45
46 MS CHADWICK: Your submission makes a strong case
47 against a 60 per cent allocation of the costs of Tillegra to be

1 recovered through developer charges. Your submission also
2 states that based on your estimates of growth, only
3 17 percent of the dam will be used by population growth
4 by 2031. There appears to be a small error in your
5 calculation and, by our reckoning, it is closer to 40.
6 Would you find a 40 per cent estimate of the cost of
7 Tillegra Dam going to developer charges more acceptable?
8

9 MR GADIEL: No, we would not, no matter how you calculate
10 it. First, how did 60 per cent become 40, which is
11 essentially what they're saying? But, no, you don't see or you
12 shouldn't see and we haven't seen in New South Wales major
13 headworks being cost recovered through levies on new homes
14 or new developments. Development charges are a very
15 narrow, transactional based almost, tax that is extremely
16 cyclical, and the imposition of these kinds of taxes can
17 have quite a distortionary impact on economic activities.
18 As was previously talked about they can accentuate the
19 booms and busts. Government policy should be trying to
20 stabilise those booms and busts, not trying to make them
21 worse. So the short answer is no 40 per cent and 60 per
22 cent.
23

24 I heard Kevin Young say 40 per cent, or he gave some
25 numbers to the effect that it was 40 per cent. That does
26 not tell you how you get to 60 per cent. Even if it did,
27 that is the first time it would be happen. If you agree
28 that 40 per cent of Tillegra Dam should be funded by a levy
29 on new homes, you are doing something different form what
30 happened with the desalination plan in Sydney. You are
31 doing something that has not happened in New South Wales
32 before and you will be creating an extremely distortionary
33 levying environment which will impact very harshly on
34 development activity in the Hunter.
35

36 Our analysis shows that the government charges already
37 close to \$50,000 on a home loan. You might well say, "In
38 the context of \$50,000, what is another \$3,000 or \$4,000?"
39 The problem is this is the last one, because this would be
40 the straw that breaks the camel's back. When you're on a
41 margin investment of \$5,000 per home lot, anything more on
42 top of what is already there will be the straw that breaks
43 the camel's back.
44

45 MR COX: If I may, you spoke a fair bit about the 40:60
46 split, but there is a notional aspect to that because what
47 actually happens is the whole cost of Tillegra Dam is put

1 into the RAB straight up and then that is extracted from it
2 as developer charges are received. How much that will turn
3 out to be will depend upon actually how much development
4 occurs. My question is: supposing we set developer
5 charges correctly, and I understand there might be
6 confusion about what "correctly" means, is there a problem
7 with that?
8

9 MR GADIEL: I suppose we would be saying that the
10 developer charge for Tillegra Dam should be set at zero, as
11 it is in Sydney for the desalination plant. I am a
12 resident of Sydney. When I bought my new apartment in
13 Sydney, I didn't pay anything in that apartment. I did not
14 bare the costs of the Sydney desalination plant, but I do
15 pay through my water bill. Why should a Hunter apartment
16 buyer be in a different position?
17

18 MR COX: If the general methodology is correct, we would
19 have subtracted the developer charge from the RAB when it
20 is received. I understand there are different views about
21 what a developer charge should be. Could you confirm
22 whether this general approach is appropriate?
23

24 MR GADIEL: You are far more expert in your methodology
25 than I am, and I would be the first to admit it. One of
26 the issues that the industry has is that this dam is
27 costing \$400m and we have this idea of the 40:60 split. If
28 the dam blows out, as others predict, to a billion. I am
29 not saying it will, but say it does, does that mean at some
30 point Hunter Water will come back and ask you to vary the
31 DSP charge to maintain the 60:40 split? If development
32 activity is not as rapid at Hunter Water has assumed for
33 the purpose of coming up with their \$1,400 figure, will
34 there be further application to you to vary that?
35

36 That uncertainty is already a matter of concern to the
37 industry, and they have not got their heads around it in
38 the Hunter at the moment. At the moment, as I said, that
39 is one of the factors which is causing problems for
40 development in this region right now.
41

42 The short answer is if you are going to set a charge -
43 we can ask that you don't set a charge, very strongly - but
44 if you are, it needs to be a fixed, clear charge and the
45 industry needs to have certainty that the development
46 charge will not be changed if Hunter Water discovers the
47 dam is far more expensive than originally anticipated, and

1 it will not be changed if the dwelling forecasts aren't
2 met, because a floating charge is a much greater
3 disincentive to invest far more disproportionately to its
4 dollar value than a fixed charge.

5
6 THE CHAIRMAN: Thank you very much.

7
8 MR GADIEL: Thank you.

9
10 THE CHAIRMAN: I would now like to call on the UDIA,
11 Mr Barr.

12
13 UDIA

14
15 MR BARR: My name is Stephen Barr. I am the current
16 chairman of the Hunter chapter of the UDIA. Thank very
17 much for the opportunity to talk to you today.

18
19 This presentation is given by the Hunter chapter of
20 the UDIA, but it is also supported by the Property Council
21 of Australia. Just so you know what the UDIA is, it stands
22 for the Urban Development Institute of Australia.

23
24 One of the things that we are particularly interested
25 in is moderating the burden of taxes and charges on new
26 development. Our members generate about \$15 billion worth
27 of activity for the New South Wales economy annually and
28 we have been around since about 1963.

29
30 Our issue is obviously similar to what the Urban
31 Taskforce has raised, which is to do with the charges on
32 new development in relation to the Tillegra Dam. We need
33 to know that those charges will be reasonable and that
34 they'll also be spread fairly between new development and
35 also existing and future residents to cover the costs of
36 drought proofing the Hunter.

37
38 So out of those people, who pays? Basically we
39 believe the people who benefit from Tillegra should pay and
40 it should be split fairly between organisations or between
41 those beneficiaries, and the costs should be spread over
42 the life of Tillegra. So we are saying that the costs
43 should be spread across all beneficiaries of the dam over
44 the life of the dam, and that would be a fair spread of the
45 cost.

46
47 In relation to why we believe the costs should be

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1 spread fairly, we heard Hunter Water say today that the dam
2 is expected to be in service for 60 years. They have made
3 certain statements and put out information saying that they
4 would expect it to serve at least the next three
5 generations. Sustainability is a very important part of
6 decision-making and one of the core principles of
7 sustainability is intergenerational equity and not placing
8 too big a burden on future generations. Similarly too,
9 often if there has been a lack of funding or a lack of
10 investment infrastructure for previous generations, it does
11 not mean the current generation should hold that cost
12 alone.

13
14 Who benefits? From the information from Hunter
15 Water's website, it is clear that both the Lower Hunter and
16 the Central Coast will benefit from Tillegra Dam. I will
17 just read this statement that come straight from the Hunter
18 Water's website regarding Tillegra Dam. It states that the
19 plan will provide for population growth in two regions for
20 at least the next 60 years and even longer with the Central
21 Coast Mardi-Mangrove pipeline link, and importantly the
22 plant will also provide significant drought security for
23 both areas.

24
25 So there are those two elements of benefit, and if
26 there is other industry or new areas that, in the future,
27 receive water that comes from Tillegra, there should also
28 be a mechanism whereby those industries or areas will
29 contribute to the cost in the future.

30
31 We understand the IPART review is to cover the next
32 five years. Within that time frame the initial main
33 beneficiaries will be the Central Coast and the Lower
34 Hunter. Tillegra is to provide substantially for drought
35 proofing to both regions and, to a lesser extent and in the
36 long term, residential growth.

37
38 So who gets drought proofing? It will be all current
39 and future residents of the Central Coast and similarly for
40 the Lower Hunter. Over the next 25 years, the combined
41 population of the Central Coast and Lower Hunter will be
42 1.08 million people. That is based on the two planning
43 strategies that were done by the state government for those
44 two regions, and people living in the region beyond this
45 time frame will also benefit from Tillegra.

46
47 Drought proofing benefits all of those residents, so

.12/12/08 45 UDIA

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1 the cost in relation to drought proofing should be spread
2 equally, which would include current and future residents.
3 This would be reflected in periodic prices. This mechanism
4 also provides a better opportunity for future beneficiaries
5 to contribute to the costs of the dam. Perhaps 10 years
6 ago, one would not have thought that the Central Coast
7 would be receiving water from Hunter Water, and we don't
8 know what other areas might be receiving water in the
9 future.
10
11 How much is fair? We are not saying new development
12 should not pay its fair share. We are just asking that it
13 be fair and that the beneficiaries who are provided with
14 the security of drought proofing should also pay their fair
15 share. How much is fair? I suppose that is the key
16 question. Currently 60 per cent is proposed to be borne by
17 new development and we do not think that is an equitable
18 spread.
19
20 The developer service plan is the mechanism by which
21 Hunter currently levies new development. Within a
22 developer service plan, the idea of a nexus is critical and
23 a nexus is the demand created for a service by that
24 development. In other words, it is just making sure that
25 that levy is fair.
26
27 The Central Coast and Lower Hunter populations have
28 been estimated in two planning strategies. The strategies
29 looked at location and type of development and they
30 explored opportunities and constraints on new development
31 within those regions.
32
33 The Lower Hunter regional strategy, in its draft
34 state, was for 125,000 people in the next 25 years, which
35 was increased by 35,000 people when it came to its final
36 strategy, to 106,000 - so that is the predicted growth.
37 The final strategy stated that there was sufficient water
38 to meet population growth. Also within that strategy was a
39 list of infrastructure provided by Hunter Water which did
40 not include the Tillegra Dam.
41
42 In relation to the Central Coast regional strategy,
43 when that was originally released in its draft stage, it
44 provided for 60,000 additional people over 25 years. While
45 the strategy acknowledges that there was land capacity for
46 100,000 people, there was uncertainty due to water supply
47 therefore until that issue was dealt with, they could not

1 increase the population. The Tillegra Dam was announced,
2 and there was also a connection dam linking the Central
3 Coast to the Hunter reservoirs, and the final strategy,
4 which was released subsequent to that, provided for 100,000
5 additional people in the region.
6
7 With regard to the strategy for new development and
8 demand for water over the next 25 years, that strategy is
9 saying that some 40,000 people on the Central Coast will be
10 creating a demand for additional water storage beyond those
11 60,000 that could have been accommodated. The 60,000
12 people that could have been accommodated under the original
13 draft strategy represents 15 years of growth on the Central
14 Coast. According to the current regional strategy for the
15 Hunter, that creates no demand for additional water as a
16 result of population growth.
17
18 Hunter Water in a recent submission to IPART, and
19 Aaron touched on this, claimed that the reason for the need
20 for the dam was due to population growth and the difference
21 between the draft and the final strategy of about 35,000
22 people.
23
24 When you look at those two figures and you look at
25 that unaccounted for demand of 35,000 additional people
26 over 25 years and similarly the additional 40,000 people on
27 the Central Coast, you're looking at a total of 75,000
28 additional people over the next 25 years within those two
29 regions. So for the Central Coast and the Lower Hunter
30 regions out of a total population of 1.08 million, you are
31 looking at between 4 and 7 per cent of the total population
32 by 2031.
33
34 In addition to that, there is legislation that
35 requires all new residential dwellings to meet the BASIX
36 requirements. BASIX is a building sustainability index.
37 The requirement is that dwellings reduce their water energy
38 consumption by 40 per cent. The state government recently
39 released a report which stated how much water has been
40 saved through the BASIX initiative. So when they were
41 comparing between pre-BASIX dwellings and dwellings that
42 were affected by BASIX, the reduction was close to half.
43
44 By 2031, up to 7 per cent of all dwellings in the
45 Lower Hunter and Central Coast will create a demand for the
46 additional water storage and also those new dwellings will
47 have a lesser demand for water than existing dwellings. It

1 is important that the levies then reflect the nature of
2 that demand.
3
4 With regard to increasing water, the current reliable
5 yield is 67.5 gigalitres per year from Hunter Water
6 storages. Once Tillegra Dam is operating it is
7 120 gigalitres of water per year, which represents a 78 per
8 cent increase in yield.
9
10 Just reviewing those numbers, we are talking about
11 7 per cent of dwellings by 2031 creating demand for
12 additional storage. Those dwellings will be using
13 approximately half the water of pre-BASIX dwellings, and
14 you have a 78 per cent increase in reliable yield from
15 Tillegra. That just does not seem to add up to why new
16 development should be levied 60 per cent of the cost of the
17 dam.
18
19 When is new storage required? We talked previously
20 about that growth and the strategies. The 60,000 people
21 that had been allocated in the strategy prior to the water
22 issue being resolved equates to approximately 15 years of
23 growth. Similarly in the Lower Hunter, if you looked at
24 the additional 35,000 people that were included from the
25 draft to the final stage. That 125,000 people who had
26 water resources there to meet their needs equates to
27 20 years of growth in the Lower Hunter.
28
29 There was a water study carried out by Hunter Water,
30 which was released in 2004, and this was not a dissimilar
31 time frame. That was an integrated resources plan which
32 talked about when Tillegra might be needed. So from that
33 information, it is not clear why new development would need
34 to contribute towards the cost of the dam any time in the
35 next 15 years.
36
37 Hunter Water wants new development to fund 60 per
38 cent of the cost of the dam. New homeowners would also be
39 paying an additional rate on their water usage as well to
40 cover the drought proofing. We talked about the nexus
41 previously in relation to developer service plans.
42 Certainly in the UDIA's view, that nexus is missing and
43 there should not be any levy on new development in the next
44 15 years.
45
46 The Central Coast water levels were as low as 13 per
47 cent, which is pretty dire. The Water 2050 plan, which is

1 the plan that the Wyong and Gosford councils have put
2 together for delivering water to the Central Coast,
3 recognises that the Hunter Water storages are important as
4 a reliable water source. The water then sold to the
5 Central Coast should reflect the cost of drought proofing
6 of the region and the Central Coast should therefore be
7 paying their fair share.
8
9 So new development should not be levied any costs
10 within the next 15 years. Only those current DSP charges
11 that are currently levied by developer service plans
12 through other regional works should continue to apply.
13 Existing and future residents should pay periodic charges
14 to cover the cost of drought proofing the Hunter and the
15 Central Coast and all users now and in the future should
16 contribute to the dam, including the Central Coast.
17
18 What is fair? This is part of Sydney Water's
19 submission to IPART's review of the Sydney Water's
20 Corporation's pricing. It basically states that the
21 desalination plant:
22
23 ... is to secure the water supply for all
24 customers - new and existing - during low
25 and variable rainfall and severe and
26 sustained droughts, possibly related to
27 climate change. It is difficult to
28 separately identify a component related to
29 growth from that of security.
30
31 We would ask that that same principle be applied to the
32 Hunter and that new development only pay its fair share in
33 relation to the demand that it creates. Thank you very
34 much.
35
36 MR REID: Thank you for your presentation. I would just
37 like to explore with you a little bit further what you
38 consider is fair, having outlined essentially what you
39 believe. In your submission you state that you consider
40 that the most equitable approach to funding is for an
41 annualised charge for all existing future beneficiaries.
42 Could you indicate to us how you would see that charge
43 being calculated?
44
45 MR BARR: In terms of it would be a charge placed on use.
46 In terms of how it is calculated, it is a very difficult
47 thing because the beneficiaries of that dam are unknown.

1 But I think to levy a large amount through DSP means it is
2 more difficult to spread that out over 50 or 60 years or
3 whatever the dam is there for, whereas a small amount could
4 be spread across all the population and if after 10 or 15
5 years there are new areas that are coming on line,
6 including the benefit of the dam, there is an opportunity
7 for those people to contribute to the cost.

8
9 THE CHAIRMAN: Thank you very much.

10
11 TOTAL ENVIRONMENT CENTRE

12
13 MR MARTIN: Leigh Martin, urban campaigner, Total
14 Environment Centre.

15
16 Once again, I would like to thank the tribunal for the
17 opportunity to make a presentation. It seems to be
18 becoming a regular event.

19
20 THE CHAIRMAN: We enjoy it.

21
22 MR MARTIN: I want to start by I guess what I called at
23 the Central Coast meeting the white elephant in the room
24 and that is Tillegra Dam. I understand the tribunal's
25 position and the direction that has been issued to it which
26 restricts its consideration. However, it does not restrict
27 me and I will state at the outset that we believe that
28 Tillegra Dam is unnecessary, that it is an unjustified
29 expense and an unwarranted degradation of the environment
30 of the Williams River and the Lower Hunter. I will set out
31 in this presentation some of the reasons why we oppose it
32 and also I will deal with some of the other pricing issues
33 that have been dealt with by the tribunal in this process.

34
35 Firstly, we heard this morning from Kevin Young Hunter
36 Waters arguments regarding Tillegra Dam and that included
37 a graph of the fall in supply levels during the 1979/81
38 drought and a picture of Chichester Dam at fairly low
39 levels. What he neglected to mention was that the 1979/81
40 drought preceded the introduction of user pays pricing in
41 the Hunter. It also preceded enlargement of the
42 Grahamstown Dam, so to present the 1979/81 drought as a
43 justification or having relevance to the current supply
44 demand situation in the Hunter is alarmist, misleading and
45 outrageous and I am disturbed that that is the level of
46 debate that Hunter Water has sought to bring to the
47 tribunal today. It resembled nothing so much as Colin

1 Powell's argument to the Un Security Council about the
2 weapons of mass destruction based on a few photographs. I
3 think we should dispense with those comparisons and deal
4 with the arguments for and against Tillegra on a more
5 substantive capacity.

6
7 Before I get to Tillegra, I want to talk about capital
8 expenditure in general. We welcome some other aspects of
9 Hunter Water's capital expenditure. We certainly welcome
10 the proposed expenditure on additional recycling
11 infrastructure. We also note that Hunter Water is
12 proposing a number of necessary upgrades to its sewerage
13 treatment plants.

14
15 I am disturbed, however, that it appears that Hunter
16 Water is still proposing to dispose of sewerage sludge
17 through the Burwood Beach outfall. That is something that
18 in this day and age we should be moving away from and I
19 would urge the tribunal to very carefully scrutinise Hunter
20 Water's proposals in that regard and look for a cleaner and
21 more sustainable approach to the management of sewerage
22 sludge.

23
24 In relation to Tillegra Dam, we certainly believe that
25 it is an unnecessary piece of infrastructure. We do not
26 believe the case has been made adequately. Hunter Water's
27 argument is based heavily on some very high levels of
28 population growth forecasts which we have heard some
29 information today may be a little optimistic. It is also
30 based on some very pessimistic assumptions regarding the
31 effects of climate change. And the tribunal would be
32 aware, and people should be aware, that the forecasts for
33 climate change impacts in the Hunter are at this stage
34 inexact. In fact, under many scenarios there is in fact
35 predicted an increase in run-off, a net increase in
36 run-off, yet there would also be a net increase in
37 evaporation.

38
39 We should make clear that, as we heard from the presentation
40 from the Urban Task Force - and I might say it is not often
41 you will find the Total Environment Centre and the Urban
42 Task Force finding common ground, but on this one I think
43 we can - and that is that even under a worst-case scenario
44 it is not until the end of the current planning horizon
45 that any augmentation of supply of that nature would be
46 required and then we can have some arguments about
47 what is the most appropriate augmentation of supply.

1
2 There is an unseemly haste to proceed with Tillegra
3 Dam at a time when Hunter Water storages are close to full,
4 despite most of New South Wales having experienced the
5 worst drought on record and at a time when the effects of
6 the estimates of population growth can't be precisely
7 considered. We don't know whether that will occur or not.
8 If it does occur, it won't be until towards the end of that
9 planning horizon that those figures eventuate. And at a
10 time when the best-case or the worst-case scenarios on
11 climate change are still being developed.
12
13 So it is difficult to see why you would commit to an
14 expensive and environmentally damaging piece of
15 infrastructure at this point of time when there appears to
16 be no immediate need to do so.
17
18 I would argue that what we have in fact is sufficient
19 time to do a proper analysis of all the various options
20 that are available to Hunter Water and the costs and
21 benefits of each of those options. And I might just add,
22 not just the financial cost, which Hunter water has
23 presented Tillegra Dam against other options, but it should
24 be reflective of lifestyle costs, factoring in the
25 environmental costs and social costs of the various supply
26 and demand options.
27
28 From that point of view I do not believe that the
29 arguments that Hunter Water has presented today and
30 presented in its submissions are at all compelling.
31
32 That brings us, I guess, to a consideration of demand
33 management. And one of the tribunal's tasks in this review is
34 to determine what is an appropriate level of water sales for
35 Hunter Water to forecast. It is our very strong argument
36 that an appropriate level of water sales and forecast water
37 sales should consider the role of best practice demand
38 management. And I would certainly not say that
39 Hunter Water is pursuing best case demand management.
40
41 There are ample opportunities which are not being
42 explored which should be developed in the Hunter. One of
43 those is the fact that large industrial users in the Hunter
44 are not currently required to develop water savings plans,
45 as is the case for large users in the Sydney Water area of
46 operations and in the Central Coast area of operations.
47

1 There is no application of climate change funds for water
2 efficiency in the Hunter to assist water efficiency projects
3 which can provide important water savings but might
4 otherwise not be commercially viable, so we have two
5 opportunities for the New South Wales Government and
6 Hunter Water to enhance demand management. I would
7 argue those should be done before Tillegra Dam and they are
8 not currently being explored.
9
10 Another option that is not being adopted by Hunter Water is
11 the use of permanent water savings rules. Permanent water
12 savings rules have been adopted by Sydney Water and will
13 be introduced when the current higher level of restrictions
14 are relaxed. They have been adopted in Melbourne and
15 they have been adopted in Adelaide. The community
16 has responded well to them and they have generally been
17 well accepted. Again, that is a level of demand management
18 that could be pursued before augmentation
19 of supply. The opportunities for that should be considered
20 in assessing what is an appropriate level of water sales.
21
22 It is no longer viable in this day and age to argue
23 that things such as hosing of hard surfaces is a
24 justifiable use of a scarce and valuable commodity such as
25 potable drinking water. That is an argument that has been
26 recognised in other areas and it ought to be recognised in
27 the Hunter.
28
29 I also think that there should be a reflection of the
30 role that temporary restrictions can play in terms of
31 management of drought. I see much of what Hunter Water is
32 seeing to go do with Tillegra Dam is to create a system
33 where restrictions are to be avoided at all costs, not
34 something that are used as a temporary measure in extreme
35 drought situations.
36
37 I lived through the 1979 to 1981 drought in the Hunter
38 and we did not run out of water. We had increasing levels
39 of restrictions until the drought broke. It was a good way
40 of managing an extreme event, by no means an ordinary
41 event, but restrictions ought to be embraced as a way of
42 temporarily dealing with a temporary problem, and that is a
43 drought shortage. It is certainly a more cost effective
44 and less environmentally destructive option than building a
45 piece of infrastructure that for most of the time would not
46 be required, and with the application of drought
47 restrictions may not be required.

1
2 Tillegra Dam does not represent drought proofing, it
3 represents gold plating, and gold plating is something that
4 the tribunal ought to guard very strongly against in
5 assessing the capital expenditure requests of utilities.
6
7 I do not believe that, given that the case for
8 Tillegra has been adequately made, that it is appropriate
9 to provide any provision for recovering costs of Tillegra
10 Dam from Hunter Water customers and, as I said, from the
11 Central Coast customers as well.
12
13 I hope that there will be a rethink on Tillegra Dam.
14 I note that there was data presented by BIS Shrapnel in the
15 Urban Task Force submission which also called into question
16 the cost effectiveness of Tillegra Dam and looked at the
17 opportunity costs of some of the alternatives for managing
18 drought security. I believe that there are better options
19 available and I do not believe those options have
20 adequately been explored and I do believe that we have
21 ample time to give those options the attention they
22 deserve.
23
24 That is almost as much as I would like to say on
25 Tillegra Dam. I want to turn to some of the other issues
26 regarding price structures and to some extent Tillegra
27 might be reflected again but, firstly, the Total
28 Environment Centre has long supported the use of a two-part
29 tariff. We strongly support ongoing attempts to reduce the
30 scale of fixed charges in favour of greater reliance on
31 volumetric prices in order to provide a strong resource
32 conservation signal but also to give customers greater
33 control over the size of their bills.
34
35 There is a disincentive for customers to invest in
36 water efficiency such as rainwater tanks or more efficient
37 appliances because the large level of fixed charges does
38 provide a limitation on the control they can exercise over
39 their bills and I would urge the tribunal to continue the
40 process of reducing the burden of fixed costs on consumers
41 in order to enhance the resource conservation signal.
42
43 To that end, we support the use of inclining block
44 tariff pricing to target discretionary water use. It is an
45 argument that we consistently make at pricing hearings. We
46 do believe that it does provide an excellent method of
47 targeting discretionary water use whilst not harming those

1 customers who have a non-discretionary requirement.
2
3 I might also add that we support the use of
4 volumetric prices in relation to sewerage charges as well.
5 And we have previously supported Hunter's use of a
6 volumetric price for sewerage charging for domestic
7 customers.
8
9 I note that Hunter Water is now proposing to remove
10 the volumetric price of sewerage. I acknowledge that the
11 use of a discharge factor is an imperfect system. However,
12 I believe it is better than relying on fixed costs.
13
14 It should be remembered that the cost of supplying
15 water is not the only environmental and economic cost. The
16 cost of disposal and the effect that sewerage has on
17 seawaters ought to be factored into play and in that
18 respect there is justification for having a resource
19 conservation signal applied to the use of sewerage as well
20 and having that reflected in water pricing.
21
22 One thing I also wanted to comment on is that for
23 sometime now we have been arguing against Hunter Water's
24 location-based prices to provide a discount for large
25 industrial customers. We have argued in previous price
26 determinations that such customers would be ideal
27 candidates for recycled water and that providing a discount
28 on potable water prices is a disincentive to adopt recycled
29 water. You no longer have to accept my word for it.
30 Hunter Water's submission and Kevin Young's presentation
31 this morning made clear that one of Hunter Water's
32 considerations in providing the location-based charge with
33 the discount for some large customers was trying to make
34 them competitive and getting themselves ready for the
35 introduction of competition in the water sector.
36
37 Given that competition in the water sector will
38 largely be for recycled water it is clear that what
39 location-based pricing represents is an attempt to undercut
40 the use of recycled water for large-scale industrial
41 customers and in the context of a planned major
42 augmentation of supply in the form of Tillegra Dam that is
43 a very disturbing situation to find ourselves in. So I
44 strongly believe that that location-based price should be
45 abolished in order to provide a stronger incentive for
46 industrial customers to switch to recycling and to provide
47 a boost for competition in the water sector.

1
2 The final points I wanted to make were in relation to
3 the period of the determination. We see some value in
4 aligning the price paths for Hunter Water, Gosford and
5 Wyong given that there is the connection between the two.
6 In view of that we think there is some logic in the
7 proposed four-year determination which would keep the two
8 utilities in line.

9
10 I also want to make a comment on another issue that
11 the tribunal sought some feedback on and that is the use of
12 scarcity pricing. We do not see scarcity pricing as an
13 appropriate response. We believe that restrictions are a
14 more appropriate tool, for two reasons: the first is that
15 restrictions are more equitable in that the burden is
16 shared equally by all customers, more affluent customers
17 are not able to just pay their way out of the obligation of
18 saving water; and also because restrictions are generally
19 well accepted by the public, as the tribunal has
20 acknowledged, and the public has responded well to
21 restrictions when they have been put in place and generally
22 they lead to lasting changes in the pattern of customers'
23 behaviour.

24
25 Finally, with the case of affordability any signal
26 that would come from scarcity pricing is essentially
27 retrospective. In general we think that there is a role
28 for ongoing price reform. We are pleased with some of the
29 directions that have been taken. We do have some concerns
30 about others, as we have outlined, but we completely reject
31 Tillegra Dam as an option for supplying the Hunter.

32
33 THE CHAIRMAN: Thank you.

34
35 MS CHADWICK: I will deal with mainly the second half of
36 your presentation. In discussing your support for sewer
37 usage charges it is worth drawing your attention to a number
38 of arguments that Hunter Water has advanced for its reasons
39 for moving away from the sewer usage charge such as perverse
40 and the unfair implications for those customers who already
41 have rainwater tanks or rainwater recycling or those customers
42 who use large percentages of their water outdoors for gardens
43 where it does not end up in the sewer system. How would
44 you see those facts being addressed?

45
46
47 MR MARTIN: I certainly acknowledge that the use of

1 discharge factors is an imperfect system. My argument is
2 that it is better than reliance on fixed charges. I think
3 that it is not impossible to factor in a situation where
4 customers are given a rebate on the discharge factor for
5 rainwater tanks which reduces their contribution to
6 sewerage. There should be a mechanism in-built to reward
7 customers for doing such things to reduce their input into
8 the sewerage system and if you had that system in place,
9 that would again provide a stronger signal to customers to
10 introduce that sort of renovation to their homes.

11
12 MS CHADWICK: One part of your submission that you have
13 not dealt with today is the introduction of a two-part
14 tariff for stormwater services. Could you further
15 elaborate on that aspect of your submission?

16
17 MR MARTIN: Generally we believe that stormwater charges
18 ought to be catchment based and reflect the contribution
19 that a property makes to the stormwater system, so for
20 instance where a property has a large degree of hard
21 surfacing in place and a large degree of run-off to the
22 stormwater system, its impact will be greater than a
23 property that has embraced water sensitive urban design and
24 seeks to reduce its contribution to the stormwater system.

25
26 So there ought to be a reflection of the contribution
27 that properties make and rebates given to customers who
28 have a lesser contribution because they have taken steps to
29 reduce the run-off from their properties into the
30 stormwater system.

31
32 MS CHADWICK: In relation to your opposition to the cost
33 reflective location-based prices for industrial customers, one
34 aspect of abolishing those prices would be, given that
35 they take account of the different costs of supply to different
36 areas, cross-subsidies from one customer group to a second
37 customer group which would result from the abolition of the
38 charges. Do you think that would be a favourable outcome?

39
40
41 MR MARTIN: I would draw the tribunal's attention to the
42 principles for recycled water pricing which the tribunal has
43 itself developed and that is that the costs of recycled water
44 should be reflected through the overall customer base,
45 not just immediately to the customers who have recycled
46 water. Everyone benefits if recycled water is adopted
47 more widely, through reduced environmental impacts

1 and the need to augment supply, so increasing the price of
2 potable water to large industrial customers and providing
3 an incentive for them to switch to recycled water is
4 reflective of that principle.

5
6 It also would be reflective of the fact that large
7 industrial customers, whilst the cost of delivering supply
8 to them may be less, are not necessarily having a greater
9 environmental impact by way of raising the quantity of
10 water they consume and location-based pricing does not
11 adequately affect those externalities, it is a narrow
12 economically focused view of pricing and I think the
13 tribunal ought to take a broader view which seeks to take
14 into account those externalities.

15
16 MR REID: One final question: there has been discussion
17 obviously today on the relativity between developer charges
18 and periodic charges. While recognising your opposition to
19 the construction of Tillegra Dam, do you have any thoughts
20 on the recovery of headworks costs between developer
21 charges and periodic charges?
22

23 MR MARTIN: I think there ought to be an apportionment. I
24 am not entirely sure what the appropriate formula for that
25 apportionment is. We ought to be cognisant of the fact
26 that if you reduced the developer contribution to the costs
27 of that headworks then by definition the customer
28 contribution will increase, so if the tribunal is persuaded
29 by the argument that has been put forward in relation to
30 developer charges that will mean that the impact on
31 customers would necessarily be greater, so that is
32 something that will have to be taken into account.
33

34 There should be an apportionment between development
35 and existing customers. There is no doubt that part of the
36 argument that Hunter Water is putting forward for Tillegra
37 Dam is the extent of population growth. I don't have the
38 capacity to tell you what the percentage is between them
39 but I believe there should be apportionment.
40

41 THE CHAIRMAN: Just one question: at the beginning of
42 your presentation you referred back to the 1979 drought and
43 you make the point that at the time Hunter didn't have
44 usage charges, the implication being that usage charges
45 make quite a bit of difference to water demand. It is
46 potentially possible that we will have quite big increases
47 in usage charges coming out of this determination and I

1 would be interested to hear if you could give us any views
2 on the scope of charges to further reduce water demand in
3 the Hunter. It has been put to us that water consumption
4 is relatively low in the Hunter relative to other cities
5 and that an increase in charges won't have any impact. We
6 have already taken that as far as we can so I would be
7 interested in your comments.
8

9 MR MARTIN: It is interesting to reflect that the
10 introduction of user pays pricing in the Hunter essentially
11 took Tillegra off the agenda in the early 1980s and it is a
12 reflection of the fact that water pricing has an important
13 role to play and one of the reasons that water usage in the
14 Hunter has traditionally been lower than other cities since
15 that time is that Hunter Water was the first area to adopt
16 user pays pricing and it was also introduced at a time when
17 there were restrictions in place. So there was a very
18 strong behavioural change that occurred in the Hunter.
19

20 There is some evidence, though, that that is starting
21 to change as the population in the Hunter grows and people
22 move into the area who were not exposed to those conditions
23 in the early 1980s as long-term residents would have been.
24 It does reflect the fact that the pricing has an important
25 role to play. We know that with Tillegra in or with
26 Tillegra out, the price of water in the Hunter is going to
27 increase in any case. That is going to have an effect on
28 demand. But also it does reflect the importance of
29 reducing water fixed charges. I am not just interested in
30 arguments about what should water cost per kilolitre, I am
31 interested in arguments about what the proportion between
32 fixed charges and volumetric charges should be because I
33 want a situation where customers have the maximum control
34 over their bills because that provides a strong resource
35 conservation signal.
36

37 I understand why it is that is not supported by Hunter
38 but there are mechanisms for dealing with that - by
39 adjusting revenue from one determination to the next or the
40 introduction of mechanisms in tribunals in support with
41 other utilities, so I urge you to look at those, not just
42 the actual level of price that is required but the mix
43 between volumetric and fixed charges.
44

45 THE CHAIRMAN: We are also interested in just how far
46 consumption might be affected in a city where water
47 consumption is already relatively low.

1
2 MR MARTIN: I think that you can argue that demand in the
3 Hunter is lower than some other cities. That is not to say
4 it is as low as it could be. You don't benchmark bad
5 performance. You should not benchmark your own
6 performance
7 against someone else's bad performance. You should
8 benchmark your performance against best practice.
9
10 As I argued in our submission, we do not believe that
11 Hunter Water reflects best practice demand management. We
12 don't have permanent water savings rules, we don't have the
13 application of climate change funding in the Hunter, we
14 don't have the application of water savings plans for large
15 customers, so I think there are many opportunities for
16 reducing demand for water in the Hunter that are yet to be
explored.

1
2 THE CHAIRMAN: Thank you very much for your
presentation.
3 The next presentation is from the Dungog Shire Council.
4
5 DUNGOG SHIRE COUNCIL
6
7 MR DEASEY: This presentation was initially prepared by
8 one of our other employees, Mr Greg McDonald. He made a
9 presentation to IPART regarding a similar case back in
10 November. Greg has subsequently moved on to the Wyong
11 Shire Council, so it has been left to me to go back over
12 part of his spiel today, but we have also included some of
13 the impacts of what is proposed from Hunter Water that will
14 affect our community going forward.
15
16 That slide shows the areas of operation of Hunter
17 Water now. We are all attuned to that at this point in
18 time. Dungog Shire Council has fully come into the area of
19 operation for Hunter Water since 1 July. This outlines the
20 shire of Dungog. In relation to the scope of our
21 waterways, we have Chichester Dam situated in the shire.
22 We also have Lostock Dam. This is Lostock, on the western
23 side of the shire, which is owned by State Water. This is
24 the Chichester Dam, which is the current water supply for
25 the Lower Hunter. This is the catchment for the Tillegra
26 Dam. As to the size of Tillegra Dam and its impact upon
27 our shire, effectively over 200,000 hectares will be
28 inundated as a consequence.
29
30 The need for Tillegra was outlined. The "Why Tillegra
31 Now?" document from Hunter Water is where it has
32 highlighted the need, citing an increase in the population
33 of 160,000; climate change, with a 10 per cent drop in
34 rainfall; and supply to the Central Coast.
35
36 Our issue with Tillegra Dam is: who will pay for the
37 scheme in the long term and into the future? Mr McDonald
38 dealt with those three challenges named by Hunter Water.
39 The developer should pay for the increase in the
40 population; existing customers should pay for the climate
41 change impact; and if the Central Coast wants a guaranteed
42 supply from Tillegra, then the developer should pay.
43
44 A report of Hunter Water at this time highlights that
45 the Central Coast is not supposed to be relying upon the
46 water supply. In the "Why Tillegra Now?" options paper,
47 they have outlined the costs. Those are the capital costs.

1 But what we are flagging to IPART today as much as anything
2 is that the social and environmental costs are not
3 effectively reflected, we believe, in the options available
4 here for Tillegra Dam.

5
6 The yield is 52.5 gigalitres. Initial capital cost is
7 \$300m, and operating cost is \$600,000 a year. As I have
8 already said and I will reiterate, Hunter Water should
9 consider the environmental and social costs, which have not
10 been calculated in justifying the dam, and we expect to see
11 some of that in their environmental assessment report.

12
13 The Dungog Chamber of Commerce prepared this slide. It was
14 prepared by the people at the chamber to show the costs
15 to the community and the business community in Dungog
16 since the announcement of the Tillegra Dam. Obviously we
17 are waiting to see what is in the environmental assessment
18 report. The preliminary environmental assessment report
19 was released focused upon certain modelling which was more
20 regional-based type modelling. We made our submission to
21 the director general of the Department of Planning in
22 relation to it. We want to see the local costs as regards
23 this dam and we are expecting to see that information in
24 the environmental assessment report when it is released.

25
26 These are the costs that have been identified:
27 community costs are estimated at \$7m per annum, and that is
28 across a range of services. Needless to say either
29 property owners have been selling out to Hunter Water or
30 they have been in a state of flux. They are not investing
31 capital back into their holdings. Some are destocking.
32 There has been a general decline in terms of economic
33 activity across the shire, particularly in the Dungog
34 community but even in the broader shire community.

35
36 We have also flagged there from the council's
37 perspective that if the dam does proceed and that area is
38 inundated, we forgo a percentage of our rate income, which
39 is effectively \$78,000, which is 2 per cent of our income.
40 We have flagged the infrastructure costs. The use of our
41 road network and bridges is estimated at \$2m a year once
42 the dam is put in place. As we say with environmental
43 costs until we see what is in that environmental
44 assessment, we cannot quantify at this point in time what
45 that cost is to our community and the broader region.

46
47 Extraction of water from the shire is unknown at

1 present. We have some idea as regards what is extracted
2 from Balickera Canal downstream. That is coming out of the
3 Williams River, what is utilised through the Chichester
4 Dam. Where it goes in the future, who knows; what will be
5 left; what will it mean to the river; what will it do to
6 the ecosystem? These are always questions which we hope to
7 have answered in due course.

8
9 In summary, the environmental and social costs
10 associated with the Tillegra Dam need to be considered, and we
11 flag to IPART that while the price is \$33 per resident,
12 without those sorts of costs being known, we ask whether
13 they have been taken into account in their calculations at
14 this point in time? That is questionable.

15
16 As we say, we believe there should be developer
17 charges for the increase in population, and existing
18 customers should be paying for drought security measures.
19 As we flagged there, we have a concern about the potential
20 avoidance by Hunter Water of the environmental costs in the
21 future. We will look at the EA when it does come out. We
22 will be putting forward our submission to New South Wales
23 Planning in an attempt to recover some of the costs for the
24 community in relation to this development, whether it be
25 through a planning agreement or something else. As we say,
26 the pricing from IPART should be reflective of those
27 additional social and environmental costs.

28
29 Aside from Tillegra, what is proposed here is an
30 increase that will have a financial impact upon the Dungog
31 community and in particular small business. We have
32 already flagged that small business in Dungog Shire has
33 already been hit and has been suffering as a consequence.

34
35 Even the council is affected. Being rate pegged,
36 our income is limited each year. I think we would be shot
37 if we went out and tried to hit everybody up for a
38 20 plus per cent increase in one go. Yes, we have gone
39 through a bit of a pricing increase. We are concerned
40 about affordability in the community in the future as a
41 result of what is happening here. We would flag that, in
42 the current economic climate, for many households the
43 affordability of basic services is a concern. It is a
44 social cost and we are all mindful of it.

45
46 We seem to be taxing and taxing more and we seem to be
47 passing on more of what used to be dealt with at a higher

1 level of government and pushing it out. We are seeing this
2 happening here. One of the things I would comment upon the
3 increase proposed by Hunter Water is that, to retain their
4 credit rating, I think \$80 per household will go towards
5 that. So the poor old community, somewhere along the line,
6 is forking out for an organisation to maintain a credit
7 rating. It has its income streams. Does it really need a
8 credit rating to be retained to that extreme? I pose that
9 question. I notice the rate of return they are talking
10 about is 7.5 per cent. In the current market, I think that
11 should be reassessed.

12
13 In closing, I would say that the council is trying to
14 work as best as it practically can through a process with
15 Tillegra Dam. We have also had to work through the process
16 of handing over our water and sewerage business to Hunter
17 Water. That wasn't an easy decision for the council. That
18 decision was made in the interests of the community at
19 large, in particular the Clarence Town community. The
20 sewerage scheme for Clarence Town, which has a population
21 of about 320, was initially assessed at \$6m. In 2007, the
22 cost to construct the scheme was around \$9.6m, and we were
23 looking at those people having to pay, after the government
24 subsidy, in the order of \$1,300 or \$1,400 a year for
25 sewerage.

26
27 Clarence Town is situated on the Williams River. It
28 is downstream of Dungog and there is a desperate need for
29 that sewerage scheme to happen, but the affordability of it
30 was one of the driving forces behind the council making the
31 decision to move to Hunter Water. We went through
32 extensive consultation with the community. We held four
33 public meetings and presented the situation to them. We
34 surveyed the community, and the majority of the community
35 came back supporting the move to Hunter Water. That was
36 the decision which council then took on board as they
37 progressed.

38
39 For me personally, as a general manager, handing over
40 a business was not something I wanted to see because I
41 believe in the longer term it will impact upon the
42 sustainability of our council, but it is a decision the
43 council has made in the interests of the community at
44 large. I am open to questions, thank you.

45
46 MR REID: Thank you very much for that. Could I just for
47 clarification ask are you suggesting that the charge by

1 Hunter Water to the residents of Dungog be reduced for the
2 loss of revenue to council from the construction of
3 Tillegra Dam?

4
5 MR DEASEY: No. What we are suggesting is that there
6 should be a revenue stream back to the community of Dungog
7 Shire from the dam proceeds, with a percentage of revenue
8 or something similar to a dividend as the state government
9 receives from Hunter Water every year. That is what we
10 will be putting forward.

11
12 MR REID: Obviously if in the interim the Hunter proposes
13 to maintain the differential between the charges to the
14 Dungog residents and the rest of the Hunter to fund some of
15 the particular carry-over activities that are in the Dungog
16 Shire, what is the support within the community for the
17 continuation of that differential and the magnitude
18 proposed by Hunter?

19
20 MR DEASEY: To be honest, I have not heard much from the
21 community. It was always flagged to the community that it
22 would take the price path a number of years to come back to
23 the postage price of Hunter Water. There have been some
24 winners in our community as a consequence of this
25 migration, particularly the smaller communities. The
26 Gresford community in particular has had a major cost
27 saving in terms of water. The Paterson area has also, but
28 the Dungog and Clarence Town communities have seen a rise
29 in their water billing by around 10 or 11 per cent.

30
31 In the Gresford case, those residents had a saving in
32 the order of 40 per cent. The Gresford community had a
33 separate water supply. We were not relying on Hunter Water
34 for that. It was only servicing 150 customers. They had a
35 high fixed charge, because we were starting to endeavour to
36 bring some liquidity into that water supply. It has a
37 major capital investment because it needs to have some
38 mains renewals and another reservoir in the not too distant
39 future. The mains over at Gresford are over 60 years of
40 age. They are coming to the end of their useful lives. At
41 that point in time, the Gresford water supply had minimal
42 funds put away to meet those costs. In debt servicing, as
43 you know, when you have only 150 people contributing
44 towards that debt service, it certainly puts a bigger
45 impost on them.

46
47 I commented earlier on the water and the economies.

1 The council has had a declining block scale in price for
2 our water supplies. We had to reduce the level of water
3 consumption in the shire as part of our supply agreement
4 with Hunter Water as a bulk user, and applying bulk parity
5 is certainly a mechanism of ensuring supply reductions.
6 Don't ask me what the percentages were. We started with a
7 240 kilolitre cap before water began to be charged double,
8 so there was certainly an incentive to save water from the
9 household perspective. And we gradually reduced it down to
10 a 200 kilolitre cap before you were effectively penalised
11 more. To be honest, I am a supporter of that. Yes, there
12 is a risk associated with declining block tariff but I
13 think you can do your modelling around it.

14
15 MR REID: Some of the submissions to us from the residents
16 of Dungog claim that, unlike Hunter Water, Dungog Shire
17 Council has no fixed water and sewerage charges. Some of
18 the things you have said seem to be contrary to that; I just
19 want to clarify the structure of that.

20
21 MR DEASEY: We operate a fixed sewerage charge and a
22 trade waste charge for commercial operators, but there is no
23 differential in pricing between a business and a resident.
24 From what I saw with sewerage and looking at our area, in
25 2007-2008, we had a \$400 sewerage charge. In 2008-2009
26 Hunter Water's charge, which includes the environmental
27 charge and working on a 200 kilolitre consumption
28 household, would come to \$423.01, which is probably under
29 where we would have been. I would have said we would
30 have been looking for an increase between 8 and 10 percent
31 for 2008-2009.

32
33 Had our sewerage works gone ahead, we would be looking
34 at probably \$3m worth of capital expenditure in sewerage
35 works over the next couple of years. Whilst we had a
36 reasonable degree of cash reserves, loan borrowings were
37 going to have to make up the balance and we needed to get
38 the balance right in the scheme, and it probably would have
39 gone up a further 10 per cent in the following two years.

40
41 In terms of water I will give you a rundown: for 200
42 kilolitres consumption in Dungog in 2007-2008, \$337.20;
43 2008-2009, under Hunter Water it is \$381.53, which is a
44 13 per cent increase. For Gresford, in 2007-2008, \$613.80
45 would have been the cost at 200 kilolitres. It is now down
46 to \$381.53 - so a saving of almost 50 percent. I note the
47 commentary of Hunter Water that the majority of Dungog

1 residents will achieve savings on their water supply. I
2 think they should have said "in the longer term" because in
3 the short term, it is only been the Gresford and Paterson
4 communities that have generated savings.

5
6 MR REID: Thank you.

7
8 THE CHAIRMAN: Thank you very much. I am going to
9 suspend this hearing for lunch and we will resume at 1.55.

10
11 LUNCHEON ADJOURNMENT

1 UPON RESUMPTION:

2

3 COMBINED PENSIONERS AND SUPERANNUANTS
4 ASSOCIATION

5

6 THE CHAIRMAN: Ladies and gentlemen, we will start again.

7 We will have Ms Charmaine Crowe from the Combined

8 Pensioners and Superannuants Association.

9

10 MS CROWE: First of all, the Combined Pensioners and
11 Superannuants Association thanks IPART for providing us the
12 opportunity to present our submission today. Obviously we
13 have grave concerns for pensioner and low income households
14 if Hunter Water's price rises actually go through.

15

16 There is a high proportion of pensioner households in
17 the Hunter region. According to ABS statistics, as at
18 2004, there were about 100,000 aged pensioners and
19 disability support pensioners in the area, which comprises
20 approximately one-eighth of the pensioner population in New
21 South Wales.

22

23 The current rate of the pension is \$14,800 for a
24 single person and \$24,400 per couple. As has been widely
25 acknowledged, the rate of the pension is simply inadequate
26 to fund a normal standard of living. As a result,
27 pensioners do have to forego essential goods and services
28 to get by. Our concern is that if these price rises do
29 indeed go ahead, that situation will be aggravated to quite
30 a considerable extent.

31

32 Water price increases proposed by Hunter Water:

33 Hunter Water acknowledges that they would increase
34 household water bills by about 54 per cent. However, for a
35 pensioner household that price increase would be around the
36 vicinity of 84 per cent. There are two reasons for this.
37 First, there has been no proposal to increase the pensioner
38 rebate, which is currently \$175 per annum. Secondly, the
39 pensioners usually have the environmental improvement
40 charge waived. I note that it has been proposed that this
41 will decrease as the price of water increases; yet this is
42 irrelevant for a pensioner household because they do not
43 pay it in the first place. So without reforms to the
44 pensioner rebate system, as it currently stands, pensioner
45 households and low income households will be facing severe
46 financial hardship.

47

48 Already the pensioners in the Hunter region are

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1 disadvantaged in comparison with pensioners who fall under
2 Sydney Water, for instance. The rebate structure for
3 pensioner households under Sydney Water is based on a
4 percentage as opposed to the flat rate which other
5 pensioners in New South Wales receive.

6

7 As a result, with price rises, if you are a pensioner
8 under Sydney Water, for instance, the rebate is then
9 factored into the price rise because it is based on a
10 percentage. This will not happen with the price increases
11 under Hunter Water.

12

13 Pensioners in the Sydney region are therefore about
14 \$130 per annum better off than pensioners in the Hunter.
15 We would like to see measures put in place, or we would at
16 least like to see Hunter Water work with the New South
17 Wales government to reform the pensioner rebate system so
18 that pensioners are better protected.

19

20 We also have concerns for other low income households
21 who may not necessarily be pensioners. Obviously they do
22 not qualify for the pensioner rebate. We are concerned
23 that they will be considerably worse off under these
24 proposals. We would like to see a range of subsidies and
25 concessions afforded to them as well. If you're a health
26 care card holder in Sydney, you are in receipt of various
27 concessions and subsidies from Sydney Water. That should
28 apply with Hunter Water as well.

29

30 We also encourage Hunter Water to adopt Centrepay to
31 assist income support recipients with their water bills. I
32 note that Hunter Water has proposed that they will be
33 assisting customers with the use of BPAY and direct debit.
34 However we find that many of our members are opposed to
35 such measures. Either they don't have access to the
36 Internet or don't trust those forms of payment. We think
37 if Centrepay were adopted, at least then all income support
38 recipients would have access to that service. It is the
39 logical thing to do as far as we are concerned.

40

41 We welcome the extension of the washer replacement
42 service to other lower income households, not just
43 pensioner households; however, we would also like to see
44 Hunter Water put in place energy efficient measures to
45 assist pensioner and low income household. Already
46 pensioner households really restrict their water use anyway
47 to cut back on expenditure for their water bills.

.12/12/08 69 CPSA

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1
2 Many pensioner households often have old washing
3 machines, for instance, which do use significantly more
4 water than the newer models, but they simply do not have
5 the disposable income available to purchase a new machine.
6 We would like to see Hunter Water provide low interest
7 loans to assist these households with that initial outlay.
8 Granted it is not an ideal situation for low income or
9 pensioner households who, dare I say, would struggle to pay
10 back such an expense, but we would see it as a very good
11 start to helping these households with water price
12 increases in the future and also helping them do their bit
13 for water preservation. Again we would like to see those
14 measures extended to other low income households and not
15 just pensioner households.
16
17 I understand that IPART cannot do much with the
18 pensioner rebate because it is an issue for the New South
19 Wales government and Hunter Water to work on, but we urge
20 you to bear in mind the impact that the proposed increases
21 will have on pensioner and low income households, and that
22 there is a definite need for a reform of the rebate system
23 and for Hunter Water to impose other measures to help these
24 households.
25
26 MS CHADWICK: Your submission states that the Hunter
27 Water pricing proposal will particularly hit pensioners hard
28 and you elaborated on the environmental improvement
29 charge. Is there a pricing structure that your association is
30 recommending to IPART?
31
32 MS CROWE: At this stage we have borrowed heavily from
33 what Sydney Water does. A rebate based on a percentage
34 could be a much better system to have to protect low income
35 and pensioner households. We understand that Hunter Water
36 needs to work with the New South Wales government on this
37 issue. We have been lobbying the New South Wales
38 government to increase the pensioner rebates not just for
39 water rates but for land rates as well. They have remained
40 static since 1993 and that simply has to change. However,
41 we do see a percentage rebate as being a much better option
42 than what is currently provided.
43
44 MS CHADWICK: Your submission also suggests that if
45 Hunter Water's pricing proposal were accepted, pensioners
46 would face bill increases of some 84 per cent. Could you
47 elaborate on the analysis that you conducted for

1 organisations like yours?
2
3 MS CROWE: Those increases are just based on real terms.
4 Essentially the price that a pensioner household using 200
5 kilolitres would pay in 2008-2009 with the \$175 rebate
6 factored in would be about \$489.17. I am basing this on
7 the Hunter Water submission. By 2012-2013, that price
8 would increase to about \$900, so that increase equates to
9 an increase of about 84 per cent.
10
11 MS CHADWICK: IPART's role is that of a price regulator
12 rather than the policy maker of rebate schemes, and I think
13 that you are recommending that we suggest to Hunter Water
14 that they adopt a Centrepay system. Are there other
15 strategies that your association believes that the tribunal
16 should be considering that are open to us within our price
17 regulating role?
18
19 MS CROWE: The hardship clause that Hunter Water can
20 provide should be extensive and also quite flexible, I
21 guess. We are already finding that low income households
22 are struggling to pay utility bills. Particularly with the
23 financial crisis that everyone is experiencing, it is just
24 getting worse. It is not just low income households; we
25 are also finding that middle income households are facing
26 those cost pressures as well. There is scope for hardship
27 provisions to be quite flexible and for Hunter Water to
28 work closely with customers who are having difficulty in
29 paying their water bills.
30
31 MR REID: One of the initiatives you talked about that was
32 reflected upon by Amanda was Centrepay. What costs to
33 Hunter Water would there be in adopting that payment
34 method?
35
36 MS CROWE: I don't know exactly what the costs would be.
37 I apologise, I just don't have it in front of me. The
38 reason we think Centrepay is a good idea is because you do
39 not exclude anyone there. Centrepay is in place to help
40 Centrelink customers with their bill payments. It is not
41 just a matter of efficiency. There may be customers who
42 themselves have difficulty paying or remembering to pay
43 bills. I think such a structure that is accessible to all
44 Centrelink income support recipients is the way to go.
45
46 MR REID: Thank you very much.
47

1 THE CHAIRMAN: Before I let you go, I wanted to mention
2 that we have done a survey of problems with low income
3 households in the Hunter. I think we will be releasing it
4 next week, with a bit of luck. I mention it because I want
5 you to be assured that we are conscious of this. As a
6 general rule, we think prices are not the best way to solve
7 these sorts of problems and that more targeted assistance
8 is the better way to go. However, we are very conscious of
9 this and have done quite a bit of analysis, which we will
10 be releasing next week.

11
12 MS CROWE: I look forward to that.

13
14 THE CHAIRMAN: Thank you. Is Mr Ludbrooke here?

15
16 PIAC

17
18 MR LUDBROOKE: I will start by saying thank you kindly to
19 IPART for the opportunity to come and talk today. It is
20 much appreciated. May I, just for the record, state that
21 the Public Interest Advocacy Center is an independent
22 non-profit, legal and policy association that aims to
23 promote a more just and democratic society by making
24 strategic interventions in issues of public policy.

25
26 As is usually the case, I suppose, PIAC's primary
27 concern is with the impact of the price increase on low
28 income consumers in particular. We understand that the
29 Hunter is home to a higher proportion of residents who are
30 recipients of the disability support pension and also the
31 aged pension than is the case for the rest of New South
32 Wales and indeed Australia.

33
34 We also understand that the median individual
35 household and family income for the Hunter is lower than is
36 the case for the rest of New South Wales and Australia as
37 well. From that perspective, we are concerned that some
38 residents of the local area will experience difficulty
39 coping with a 54 per cent increase in the price of the
40 water as is proposed by Hunter Water.

41
42 We are keen to make sure, as no doubt is IPART, that
43 the price increase is kept to a minimum and we have a
44 couple of points to make in response to that. The first
45 point is in relation to the capital expenditure program
46 proposed by Hunter Water. The suggestion made in the
47 submission was that growth was the primary driver for the

.12/12/08 72 PIAC

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1 capital expenditure program. Hunter Water referred to some
2 demographic data put out in 2006 to suggest that there
3 would be 160,000 new residents in the Hunter and 115,000
4 new dwellings by 2031, I believe.

5
6 I wasn't here earlier today. I believe this issue may
7 have already been addressed by other speakers, other
8 presenters, but our understanding is that these statistics
9 or these demographics may be suggesting that the growth in
10 the area will actually be larger than will be the case.
11 There was some data put out by the Department of Planning
12 in October 2008 that suggests that there would be in fact
13 130,000 new residents, so about 75,000 new dwellings, both
14 numbers being less than the numbers that Hunter Water
15 relied upon in its submission.

16
17 PIAC wonders whether this lower growth of the
18 population and dwellings in the area would have any impact
19 on the size of capital expenditure and the need for capital
20 works program as Hunter Water has suggested and we would
21 ask IPART to consider these new figures.

22
23 The other point we would like to make related to price
24 increase is to do with its trajectory. We understand that
25 the price proposed would increase the average bill by
26 28.8 per cent in the first year and that there would be
27 smaller increases in years after that. It is PIAC's
28 position and experience that many of the low income
29 households don't have a lot of discretionary expenditure
30 and they don't have a lot of savings to fall back on. They
31 might find a 28.8 per cent increase in the price of water
32 in the first year a little bit hard to cope with. PIAC
33 would rather see a more gradual increase in the price of
34 the water so that consumers are not likely to face a price
35 shock, if I can put it that way, in the first year.

36
37 We do of course accept the price of water will
38 increase over the course of the determination and, as is
39 usual, we have some suggestions as to the types of social
40 policies or safety net that could be put in place to assist
41 low income consumers and other consumers experiencing
42 hardship to cope with increased prices.

43
44 The first thing to do is the pensioner concession. It
45 is our understanding that the pensioner concession in the
46 Hunter is about \$87 for water and \$87 for sewerage, which
47 is considerably less than the pensioner concession

.12/12/08 73 PIAC

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1 available for Sydney Water consumers. I think that is
2 somewhere in the vicinity of \$475. The pensioner
3 concession in the Hunter has been the same for quite
4 sometime. I am not sure exactly how long it has been at
5 that level but certainly at the time of the last
6 determination it was at that level, so the price of water
7 has been going up but the pensioner concession is the same,
8 so its utility has been declining over time and we would
9 like to see that pensioner concession increase.
10
11 We are also are a fan of water vouchers. We have spoken
12 to a number of community organisations in the Hunter
13 in the lead-up to our submission and this hearing and the
14 suggestion from many is that Hunter Water has done a good
15 job so far in distributing or allocating vouchers to those
16 community organisations but they are concerned that there
17 will be increased demand for vouchers over the
18 determination period on account of the price increase.
19 They are concerned that some people who currently require
20 to access vouchers may need to access more vouchers and
21 there will be people who are currently able to cope who may
22 need to access vouchers for the very first time.
23
24 We would ask IPART to urge Hunter Water to ensure that
25 the vouchers that they allocate to community organisations
26 are adequate to meet the needs over the four years of the
27 determination.
28
29 As with the Combined Pensioners and Superannuants
30 Association, we are a fan of Centre Pay and we note that
31 Hunter Water suggested it was not going to adopt Centre
32 Pay, or suggested so in its submission. PIAC thinks that
33 Centre Pay is an appropriate tool to assist customers who
34 have a hard time managing their finances to pay their water
35 bills.
36
37 If memory serves me well, Hunter Water suggested that
38 one of the reasons that Centre Pay would not be adopted in
39 this area was that it had not been particularly successful
40 for Sydney Water customers. Our understanding is that
41 Centre Pay has not been around or offered by Sydney Water
42 for long, only for a couple of years, and that it has not
43 been widely promoted by Sydney Water. We are not
44 convinced the argument that it has not been that successful
45 for Sydney Water provides justification for not pursuing that
46 option in this area.
47

1 I was going to mention the kidney dialysis rebate but
2 I understand this morning Hunter Water did make a
3 commitment to double the kidney dialysis rebate, so PIAC is
4 appreciative of that and thinks that is an appropriate
5 move.
6
7 Maybe the only other thing I would mention is the no
8 interest loan scheme. Hunter Water mentioned no interest
9 loan schemes this morning and suggested that they would
10 look at that. We would urge them to do more than look at
11 it but to adopt it. We are happy to point you in the right
12 direction and give you people to talk to and provide
13 information about how the program works and why it might
14 work well for Hunter Water customers.
15
16 I think that is all we have to say today.
17
18 MR REID: Thank you. Obviously one of the things that
19 IPART has to do is balance customer affordability with the
20 financial viability of the utility and that is a critical
21 matter for this determination. Do you have any thoughts on
22 the approach that IPART should adopt for that purpose?
23
24 MR LUDBROOKE: An adequate safety net is a necessity.
25 When prices go up the cost of providing adequate water
26 supply to residents of the Hunter will go up, the price
27 will obviously go up, and that is appropriate enough.
28
29 But we need to be mindful of the fact that there will
30 be some residents in the area who will have a hard time as
31 a result of that and that it is essential that there is an
32 appropriate and adequate safety net in place to provide
33 support to them when they experience difficulty paying
34 their bills, if they are at risk of having their flow
35 restricted or if they have some problems paying their debts
36 to Hunter Water. Exactly what sort of price increases are
37 appropriate I am not qualified to say. We certainly know
38 that a safety net is required to assist those people who
39 will experience difficulties when the price does actually
40 go up.
41
42 MR REID: One issue that you raised in your submission is
43 you want IPART to reject Hunter Water's proposal to pass
44 through any costs imposed by implementation of the carbon
45 pollution reduction scheme and you say that to do so fails
46 to provide any incentive to Hunter Water. I suppose a key
47 purpose of the scheme is to encourage a low carbon

1 intensive economy and to signal costs of carbon in goods
2 and services. One could argue that not to pass through the
3 costs of the scheme would defeat the purposes of it. Do
4 you have any comments on that?

5
6 MR LUDBROOKE: We are not suggesting that the costs
7 should not be passed through altogether, just that the costs
8 could be shared. Our understanding is that in a competitive
9 market there is some incentive for firms to reduce their
10 costs, to keep their prices low and to maintain market
11 share, to put it crudely I suppose. When there is just one
12 player, in this case Hunter Water, there does not seem to
13 be to our way of thinking any incentive for them to reduce
14 their carbon emissions to keep their costs low and to keep
15 prices low, so some sort of a balance I guess we think
16 would be in the interests of residents and in the interests
17 of cutting carbon emissions as well.

18
19 MR REID: Under the issue of affordability you talk about
20 the water voucher scheme. This may be a question more for
21 Hunter Water than yourself, but do you have any information
22 or figures on the uptake of that scheme?

23
24 MR LUDBROOKE: No, I don't. I have spoken to most of the
25 community organisations in the area who do offer vouchers
26 and their suggestions so far seem to be that when they run
27 out, or are close to running out, they have been able to
28 contact Hunter water and ask them for more and that by and
29 large Hunter water has responded to those requests. I dare
30 say Hunter Water would be better placed to answer that than
31 I am.

32
33 MR REID: One of the issues the tribunal is also looking
34 at is the present price structure, the balance between
35 fixed charges and usage charges. Do you have any view on
36 the appropriate price structure and its impact on the
37 people that you represent?

38
39 MR LUDBROOKE: We have tended to propose that fixed
40 charges should be as low as possible. The concern is that
41 if fixed charges increase, that low consumption households
42 end up being paying more or being disproportionately
43 affected by an increase in the fixed charges and it is our
44 opinion that a lot of those low consumption households are
45 also low income households so we think that a higher fixed
46 charge may have an adverse impact on those low income
47 households. We would rather see a lower fixed charge than

1 and a higher usage charge.

2
3 THE CHAIRMAN: Thank you very much.

4
5 I will now ask Mr Banyard to give his presentation.

6
7 PROPERTY OWNERS ASSOCIATION

8
9 MR BANYARD: Thank you. I represent the Property Owners
10 Association, which has about 400,000 residential properties
11 in New South Wales, and our organisation also covers across
12 the state. I am the only presenter here today who
13 represents holders of "100 per cent customer contracts",
14 and that is like residential landowners, we all hold
15 customer contracts. They are defined in the operating
16 license as you must own property and you must be within the
17 Hunter Water defined area.

18
19 The term "customer" has been used repeatedly today
20 incorrectly. Tenants are not customers. Most pensioners
21 are not customers. Most low income earners are not
22 customers and cannot hold customer contracts. The POA
23 would also argue that Gosford, Wyong and Sydney cannot
24 hold customer contracts because they fall outside the
25 definition and therefore cannot be supplied with water by
26 Hunter Water.

27
28 Metres: user pays is a major conservation tool.
29 Individual water meters are surely a fundamental. You
30 would not go into a service station and divide the fuel
31 bill up amongst the people who are there, you use the
32 meter, and that is exactly what should be happening with
33 water. All individual household should have water meters.

34
35 Thirteen per cent of Hunter Water's supply is not
36 revenue generated. That is an area that needs addressing.

37
38 Strata managers and Sydney Water and others are
39 joining the bandwagon for endorsing the concept of
40 individual water meters. We believe that user pays is the
41 most important direction to follow and we believe 100 per
42 cent in user pays on a per kilolitre basis with no standing
43 charges, no other charges, simply 100 per user pays.

44
45 We also believe there should be one price for all for
46 water. Currently in the proposal, if you are a good
47 consumer and you conserve a lot of water and really work

1 hard, you have the privilege of paying \$13.62 a kilolitre.
2 If you have use 200 kilolitres of water you pay \$4.61, and
3 if you are a large user by their definition you pay \$1.16.
4 We believe that the more you waste, the less you pay, and
5 in our documentation there is more detail of that.
6
7 The user who pays should be the end users and that
8 comes back to the customer contract. Tenants should be
9 allowed to hold customer contracts. Residents use half of
10 Hunter water and yet pay two thirds of the revenue.
11
12 A couple of quick comments on Tillegra Dam: we
13 believe that you should buy the water, not the factory.
14 Tenants are only short-term users, and a number of property
15 owners, so over a lengthy period of time if they are
16 contributing to Tillegra's costs they may well never gain
17 any benefit from the money they have contributed. We also
18 draw attention that in June 1993 at the Hunter Water Forum
19 the then managing director, David Evans, issued some
20 comments in a statement about a water grid and that water
21 grid was part of their long-term plan and it included the
22 Hunter, the Central Coast and northern Sydney. Therefore
23 that needs clarifying by the tribunal. If they are
24 expecting Hunter area and Gosford Wyong area to contribute
25 to the dam, they need to address the question of northern
26 Sydney.
27
28 Currently somewhere between \$50m and \$100m is sent
29 back to the Government in terms of dividend charges, taxes
30 and contras.
31
32 Finally, I would like to comment on the sewer usage
33 charge increases because it becomes a massive burden to
34 landlords, which will lead to more bad debts, reduced cash
35 flow and increased costs for landlords and effectively the
36 tenants could end up with very significantly lower bills
37 for their water use because only the water use component of
38 the bill can be passed onto the tenants from the landlords,
39 therefore you are skewering to as many as 70 per cent of
40 the State's householders the responsibility for paying a
41 big chunk of the water bill to the landlord or property
42 owner and letting the non customer contract people off by
43 not paying.
44
45 The High Court had a ruling in 1993 which basically said
46 that tenants should pay for water and sewerage. The POA
47 believes that the abandonment of the sewer usage charge

1 is a way of bypassing the High Court's ruling and we do not
2 believe that is correct.
3
4 They are the main points and I really draw your
5 attention to the details within our main submission.
6
7 THE CHAIRMAN: Thank you very much.
8
9 GENERAL QUESTIONS
10
11 THE CHAIRMAN: It is now open for anyone else here in the
12 room if they want to make a comment.
13
14 MS PASELOW: My name is Carol Paselow and my family
15 have lived and farmed in Williamstown for four generations.
16 Past generations lived with the doom of dam construction
17 hanging over their heads. However, we were constantly
18 reassured that the dam would not be considered for at least
19 another 20 to 30 years.
20
21 When my family heard the announcement in November that
22 Tillegra Dam was back the books, we were shocked and we
23 could not believe it. That an announcement of this
24 magnitude was made without any prior consultation and
25 seemingly no validation, merely as a political motivation,
26 was and is very demoralising to the farmers and the local
27 community. That people's livelihoods, their families,
28 could be torn asunder for no just reason, that a pristine
29 river system, a fertile agricultural valley and a family
30 member's final resting place, and a diverse and unique
31 environment could be sacrificed at the whim of politicians,
32 is undeserved and unbelievable.
33
34 I do not believe that the proposed Tillegra Dam is
35 required and I do not believe that the people in the Hunter
36 should be paying for an infrastructure that is not needed.
37 I request IPART to seek independent review about the need
38 for the dam as I believe it has been politically motivated
39 and is not justified.
40
41 The alternative to a dam must be explored properly
42 before another burden is placed on Hunter ratepayers and
43 yet another diverse environment is lost forever. Without
44 the need for the dam being demonstrated, there should be no
45 provision made for recovery of the cost of Tillegra Dam
46 from its customers. Thank you.
47

1 THE CHAIRMAN: I am not sure whether you were here at
2 the beginning of this hearing today but I said at the outset
3 that our terms of reference do not extend to questioning
4 the need for the dam. Our terms of reference do, however,
5 allow us to consider when it should be paid for, how it
6 should be paid for and who should pay for it, but do not
7 extend to questions about the need for the dam. That is
8 not in our terms of reference.

9
10 MS PASELOW: Sorry, I was not here this morning.

11
12 THE CHAIRMAN: Other people who would like to comment?

13
14 MS CORBETT: My name is Sally Corbett and I am from the
15 No Tillegra Dam Group, placed in Dungog. Following on
16 from your answer to that question, I would like to know if the
17 tribunal has anyway of indicating in its determination what
18 the effect of that 16A directive is? In other words, can
19 the tribunal in its deliberations, in its determination, in
20 some way indicate what effects the fact that the tribunal
21 is not able to look at whether the Tillegra Dam is an
22 appropriate capital expenditure?

23
24 THE CHAIRMAN: What we can do in our determination, or
25 in our report, not the determination to be technically
26 correct - in our report we can give an indication of what
27 we believe the price would be if there were no Tillegra Dam
28 and, indeed, we have already done that earlier today in a
29 chart that was put up on the screen which gave an
30 indication of what the price would be if the Tillegra Dam
31 did not go ahead at this time. That is basically what we
32 can do.

33
34 MS CORBETT: Can the tribunal look - I am just trying to
35 remember the figure, I think it was the price increase that
36 Hunter Water Corporation was looking for of 43 per cent
37 without the Tillegra Dam - can the tribunal indicate in
38 that 43 per cent whether there are any hidden costs of the
39 Tillegra dam?

40
41 THE CHAIRMAN: We can certainly do that because we do
42 attempt to scrutinise to the maximum of our ability that
43 the expenditure is sufficient and prudent and in the price
44 that we put out without the cost of Tillegra we would not
45 want to have any Tillegra Dam costs in there, so we will be
46 making our very best endeavours to ensure that is the case.
47

1 MR YOUNG: I just wanted to clarify a point that was made
2 by Mark, and I think Colin Reid may have asked a question
3 about PAS vouchers. Just to short-circuit that process,
4 last year \$50,000 was allocated to payment assistance
5 vouchers in blocks to the different welfare agencies. It
6 is true that when they run out, they ring us up and we
7 supply some more, so it is not like we put a limit on the
8 maximum number. But the figure is about \$50,000 a year in
9 payment assistance vouchers. It is fair to say that was at
10 the time of our submission in September and, with the
11 change to the economy, that could be an area that may see
12 an increase.

13
14 I just wished to cover off that item that was raised.

15
16 THE CHAIRMAN: Thank you for that.

17
18 MS SMILES: My name is Bev Smiles and I am from the
19 National Parks Association. This may have been covered
20 this morning because I was not here, but just following up,
21 knowing that there was a submission to the tribunal from
22 the Department of Environment and Climate Change
23 highlighting that there were some possible costings in
24 relation to the delivery of environmental flows or other
25 environmental considerations or impacts with the Tillegra
26 Dam proposal and whether the tribunal has looked further
27 into those possible increased costings. We have not seen
28 anything coming from Hunter Water to date that outlines any
29 of those additional requirements around the construction of
30 the dam.

31
32 THE CHAIRMAN: I can't give you an immediate answer as
33 to that but our tribunal secretariat may.

34
35 MS CHADWICK: Yes, it was a question that was raised in
36 the DECC submission and a supplementary submission was
37 received from Hunter Water, from memory about ten days
38 ago, and it was loaded on our website. The bottom line of
39 that submission is to suggest that in the overall estimates for
40 Tillegra those kinds of things have been included in their
41 project costs. That is a correct summary of your
42 supplementary submission?

43
44 MR YOUNG: True. We did read the submission from the
45 Department of Environment and Climate Change and I wrote
46 directly to Lisa Corbyn just to clarify the two things that
47 she had raised. One was that she advised that load-based

1 licensing was only going up by CPI and I confirmed that
2 that was all that we had allowed in our submission; and the
3 second was that in the estimate for Tillegra Dam that that
4 did include a multi-million dollar environmental offsets
5 package that had been accommodated in the costs. So that
6 was just to let her know that that was all in place.
7

8 CLOSING REMARKS
9

10 THE CHAIRMAN: If there are no further questions or
11 comments, I will bring this hearing to a close.
12

13 I would like to thank all of you here today for your
14 participation. We have clearly got quite a lot of work to
15 do and not a lot of time to do it in for reasons beyond our
16 control.
17

18 A couple of things that are worth emphasising are that
19 these very big price increases - a 54 per cent real
20 increase in prices or an increase in household bills is a
21 very big increase. In my time on the tribunal, now about
22 four years, I cannot remember one as big as this, but it
23 has been driven very heavily by capital expenditure and not
24 particularly by Tillegra Dam.
25

26 If you go back to the presentation that Kevin Young
27 made at the beginning of today's hearing, in terms of the
28 overall increase in the household bill, Tillegra is only 9
29 per cent of the increase. Most of the rest has been driven
30 by other capital expenditure and a lot of that capital
31 expenditure is on wastewater - 38 per cent of that capital
32 expenditure is on wastewater.
33

34 What I think I got from the presentation today by
35 Kevin Young is that much of this capital expenditure has
36 been driven by the need to meet licensing standards and so
37 the proposition that this very big increase is because of
38 the risk that Hunter Water Corporation may not meet its
39 licensing standards either says something about the period,
40 the relatively recent period over the last half dozen years
41 when there was under investment, or alternatively that we
42 ought to get it down a bit. That is the question that we
43 will have to pursue over the period ahead.
44

45 There are some other critical questions about the
46 division of who should pay, which applies particularly to
47 Tillegra, because I emphasise that that is not the main

1 story from a pricing point of view, so there are some
2 questions about who should pay and over what period they
3 should pay.
4

5 We have quite a bit of work to do and I do thank you
6 for your assistance today. Thanks very much.
7

8 AT 1.45PM THE TRIBUNAL ADJOURNED ACCORDINGLY.
9

10

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