

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF PRICES HUNTER WATER CORPORATION

Tribunal Members
Dr Peter Boxall AO Chairman
Ms Catherine Jones Member

Members of the Secretariat

Mr Hugo Harmstorf CEO, Mr Matt Edgerton, Ms Anita Payne,
Ms Felicity Hall and Mr Chris Ihm

Held at Harbourview, 150 Wharf Road, Newcastle

On Monday, 2 November 2015, at 11.00am

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1 OPENING REMARKS

2
3 THE CHAIRMAN: Good morning, and thank you all for coming.
4 I'd like to welcome you to this public hearing. We are
5 conducting a review to determine the maximum prices that
6 Hunter Water can charge its customers for its water,
7 sewerage, stormwater and other services from 1 July 2016.

8
9 My name is Peter Boxall and I am Chair of the
10 Independent Pricing and Regulatory Tribunal, IPART. I am
11 joined today by one of my fellow tribunal members,
12 Catherine Jones. Also assisting the tribunal, we have some
13 IPART secretariat members including Hugo Harmstorf, CEO,
14 Matt Edgerton, Anita Payne, Felicity Hall and Chris Ihm.

15
16 I would like to begin by acknowledging that this
17 hearing is being held on the traditional land of the
18 Awabakal people.

19
20 Also I would like to thank those who provided a
21 written submission in response to our issues paper for this
22 review. Our issues paper set out the key issues that will
23 be considered as part of the review. It also summarised
24 Hunter Water's pricing proposal and set out our preliminary
25 view on some of the pricing issues.

26
27 Hunter Water's pricing proposal, our issues paper and
28 submissions to our issues paper are available to the public
29 on our website.

30
31 This public hearing is an important part of our
32 consultation process for this review. In addition to the
33 views expressed in written submissions, we will consider
34 the views you provide today before making our final
35 decisions on Hunter Water's prices.

36
37 Following this hearing, we will release a draft
38 determination and report for public comment in March 2016.
39 People will then have about four weeks to make further
40 written submissions for consideration by IPART before we
41 make our final decision on Hunter Water's prices.

42
43 The final report and determination will be released
44 in June 2016, which will contain the maximum prices to
45 apply from July 2016. In general terms, our price review
46 will be seeking to determine:

47

1 What are Hunter Water's efficient costs of providing
2 its water, sewerage and stormwater services; and
3 How should these costs be recovered through prices?

4
5 As part of this review we will also decide whether we
6 should determine charges for Hunter Water's wholesale water
7 and wastewater services to licensed retail suppliers of
8 water and/or wastewater services under the Water Industry
9 Competition Act 2006.

10
11 With new water and wastewater businesses entering the
12 market, this issue is becoming increasingly important. We
13 have decided to hold a dedicated public hearing on
14 wholesale water and wastewater pricing on Tuesday,
15 8 December 2015 in Sydney. A copy of the agenda and
16 details for the workshop will be made available closer to
17 the date of the hearing on IPART's website. If you are
18 interested in this issue, I encourage you to attend the
19 public hearing.

20
21 Before we commence proceedings today, I would just
22 like to say a few words about the process for this hearing.
23 We will commence today with a presentation by Hunter
24 Water on its pricing proposal. The hearing will then be
25 divided into two key sessions.

26
27 The first session will consider Hunter Water's prices
28 for its water, sewerage, stormwater and other services
29 before breaking for lunch. The second session will
30 consider all other issues relating to prices including
31 Hunter Water's operating and capital costs and its forecast
32 water sales to customer numbers. This second session is
33 also an opportunity for us to hear your views on any other
34 issues you wish to raise that are relevant to this review
35 of Hunter Water's prices.

36
37 Within each session, we will discuss several topics.
38 A member of the IPART secretariat will give a brief
39 presentation introducing each topic, I will then invite
40 participants at the table to provide comment on that topic.
41 I ask that you please limit your opening comments to a
42 maximum of five minutes. You may then have an opportunity
43 to provide further comment, if you wish, subject to time
44 constraints. Following comments from those around the
45 table, I will then invite comments from the general
46 audience.

47

1 Today's hearing will be recorded by our transcribers.
2 Therefore, to assist the transcribers, I ask that on each
3 occasion you speak to please identify yourself and, where
4 applicable, your organisation before speaking. A copy of
5 the transcript will be made available on our website.
6
7 So we commence today with Hunter Water's presentation
8 of its pricing proposal over to you, Jeremy, Fiona and
9 Peter, thank you.
10
11 HUNTER WATER PRESENTATION
12
13 MR BATH: Thank you. My name is Jeremy Bath. For those
14 who don't know me. I am the interim chief executive officer
15 of Hunter Water. I see a couple of familiar faces, but for
16 those I don't know, nice to meet you.
17
18 Thank you for the introductions, Dr Boxall, and
19 I welcome the tribunal and secretariat to Newcastle.
20
21 I appreciate that Hunter Water has the opportunity
22 every few years to explain to the tribunal the reasoning
23 for our expenditure plans and pricing proposals and we look
24 forward to doing so today in this roundtable format. Fiona
25 Cushing, our chief financial officer, and Peter Shields,
26 our regulatory policy manager, will assist throughout the
27 day in answering your questions.
28
29 Hunter Water is focused on three key business goals:
30
31 Firstly, the safety of our fellow workers, our
32 contractors, and the public remains at the forefront of the
33 way we work;
34 Secondly, maintaining the financial health of the
35 business. This means delivering a return to our
36 shareholders that reflects the commercial and regulatory
37 risks we face while always mindful of bill affordability
38 for our customers;
39 Finally, continuing cultural change towards a high
40 performance workforce allowing Hunter Water to constantly
41 improve productivity and deliver better service outcomes
42 for all of our customers.
43
44 Hunter Water was pleased to claim the title of having
45 the lowest bill of any major water utility in Australia
46 when compared on a like-for-like basis as reported in the
47 latest update of the national performance report. This

1 result based on 2013-14 data was driven by the fact we had
2 the lowest operating cost per property of any water utility
3 in Australia. At \$570 per property, this is more than \$360
4 lower than the middle-placed water utility in our category.
5
6 Hunter Water has rebuilt community trust in recent years and
7 has worked closely with the Metropolitan Water Directorate
8 on the Lower Hunter Water Plan. The plan, developed by the
9 Metropolitan Water Directorate with Hunter Water's support,
10 documents the state government's intent to provide the
11 Lower Hunter community with a sustainable, safe and
12 reliable water supply for up to 20 years.
13
14 The 2014 plan will undergo its first major review
15 towards the end of the upcoming price period. Hunter Water
16 remains focused on strengthening its balance sheet by a
17 continued prudent management of capital, careful
18 management of operating costs and completing the assets
19 recycling program.
20
21 Through the recycling program, Hunter Water divested a
22 number of non-core assets that were not essential to the
23 delivery of water, sewer and stormwater services to our
24 customers. During 2014-15 Hunter Water sold its head
25 office building for a record price - a record price at the
26 time - and completed the sale of a subsidiary, Hunter Water
27 Australia.
28
29 In addition, Hunter Water has sold 6,000 hectares of
30 land purchased for the now ruled-out Tillegra Dam. Hunter
31 Water is currently in the process of selling the Kooragang
32 Island water scheme. This 3 billion litre per annum
33 facility supplies Orica's Kooragang Island plant with high
34 quality water over a long-term commercial agreement.
35
36 Hunter Water has seen an upgrade of its credit rating
37 within the last year based on the ratings agency's review
38 of the stability of the regulatory regime overseen by the
39 tribunal. The upgrade also recognised Hunter Water's work
40 to control costs and borrowings.
41
42 Hunter Water uses competitive tendering to achieve
43 price advantages where possible. In the current price
44 period, 75 per cent of all non-labour operating expenditure
45 has been market tested. This is one of the highest
46 percentages of any large water utility in Australia.
47

1 Hunter Water entered into a contract with Veolia to
2 operate and maintain our 25 water and wastewater treatment
3 plants in the middle of last year. This 10-year agreement
4 followed a competitive procurement process overseen by an
5 independent procurement specialist. Hunter Water benefits
6 through competitive rates, access to the specialist skills
7 of a global water business and the ability to consolidate a
8 range of smaller contracts.

9
10 Hunter Water has met the system performance standards
11 set out in its 2012 operating licence in every year to
12 date. We have proposed modest increases in capital and
13 operating expenditure on the basis that we can continue to
14 meet current standards over the period to June 2020.

15
16 Capital expenditure increases from \$95 per year in the
17 current price path to \$97 million per year in the next
18 price path. Likewise, operating expenditure rises
19 marginally from \$130 million per year under the current
20 IPART allowance to \$133 million per year.

21
22 The customer engagement work for the price submission
23 revealed that 96 per cent of Hunter Water's customers rated
24 our performance as a water utility as good, very good or
25 excellent. In terms of value for money, only 18 per cent
26 of respondents gave a rating of unfavourable. More than
27 two-thirds of our customers considered that Hunter Water's
28 pricing structures were fair.

29
30 Our 2015 price submission proposals would see around
31 85 per cent of all customers benefiting from a slight fall
32 in their bills in real terms over the period to 2020.
33 Hunter Water considers that it has put together a
34 responsible set of spending proposals that finally balances
35 the financial viability and customer affordability
36 trade-off. At the same time, we have a strong customer
37 support for the work we are doing.

38
39 I was going to hand over to my CFO, Fiona. We had a
40 presentation, which we are actually missing. Fiona, why
41 don't you do that later on. Maybe we will do that later,
42 if that's all right.

43
44 MS CUSHING: Yes, that's fine.

45
46 MR BATH: Dr Boxall, I'll throw it back to you and Fiona
47 can go through the presentation when we have the USB stick.

1 Fortunately, our office is only just up the road.

2
3 THE CHAIRMAN: Yes, thank you very much, Jeremy. I call
4 upon now Felicity Hall from the secretariat to introduce
5 the first session, which is a discussion on Hunter Water's
6 water charges, Felicity.

7
8 SESSION ONE: WATER SEWERAGE, STORMWATER AND OTHER CHARGES

9
10 WATER CHARGES

11
12 MS HALL: Thank you, Peter. This session on water charges
13 covers three key areas:

14
15 Setting the water usage and fixed service charges;

16 Location-based water usage charges for large
17 customers; and

18 A cost pass-through mechanism for alternative water
19 sources in times of water scarcity.

20
21 Considering the first key area of water usage and
22 service charges, Hunter Water is proposing to maintain the
23 water usage charge at \$2.24 per kilolitre in real terms
24 over the price period. This position is based on customer
25 preferences for greater control over their bills and it
26 proposes that the current estimate of the long run marginal
27 cost of water supply is the best estimate until the Lower
28 Hunter Water Plan is next updated.

29
30 Hunter Water is also proposing to increase the water
31 service charge for all customers. For residential and
32 small non-residential customers, the fixed charge would
33 increase in real terms from \$17.89 in 2015-16 to \$58.72 in
34 2019-20. The charges for non-residential customers are
35 also proposed to increase according to the meter size.

36
37 IPART's position in terms of its proposal is that we
38 will take into account any available estimates of the long
39 run marginal cost of water supply, the views of customers
40 and other stakeholders, price stability and the
41 impacts on customer bills.

42
43 We will also review Hunter Water's proposed increase
44 in its revenue requirement for water services, which is a
45 2.8 per cent real average annual increase over the price
46 period.

1 Stakeholders identified a number of factors for IPART
2 to consider when setting water usage charges. These
3 include the long run marginal cost of water supply and
4 setting appropriate price signals for consumption and
5 investment. Also customer preferences and price stability
6 should be taken into account.
7
8 Some stakeholders highlighted that the next review of
9 the Lower Hunter Water Plan will provide more certainty
10 about the preferred supply of augmentation in the Hunter.
11 This means that long run marginal cost estimates will be
12 available at the next Hunter Water price review.
13
14 Several submissions commented that customers prefer
15 water usage charges to be a larger proportion of their
16 water bill. Some expressed concern about the increase in
17 the water service charges for flats and units particularly
18 in combination with the proposed increase in the sewerage
19 service charge. Finally, the last issue raised by a
20 stakeholder was that the service charges are not equitable
21 as they don't distinguish between the size or type of units
22 and the demand for service.
23
24 The next issue to discuss is location-based water
25 charges. Hunter Water is proposing to maintain its
26 location-based water usage charges for customers that
27 consume in excess of 50,000 kilolitres per year in certain
28 geographic areas.
29
30 IPART's position is to consider Hunter Water's costs
31 of servicing and the impacts upon large customers as well
32 as on the general customer base. We will also review how
33 these prices might apply under a weighted average price
34 cap.
35
36 In terms of issues raised in submissions in regard to
37 location-based water usage charges, stakeholders were
38 concerned that the location-based prices diminish the
39 resource conservation signal of the water usage charge for
40 those large industrial and commercial customers.
41
42 It also reduces the incentive for these customers to
43 reuse effluent. Further, the stakeholder has
44 commented that Hunter Water's forecast growth in
45 non-residential water demand indicates the need to abolish
46 the location-based prices and this is based on that the
47 non-residential water demand is increasing by 1.9 per cent

1 per year and residential growth is 0.2 per cent per year.
2
3 The final issue to discuss in this session on water
4 charges is whether we should develop a cost pass-through
5 mechanism to recover the additional costs of alternative
6 sources of supply via customers' water prices. This could
7 be developed as a similar mechanism that Sydney Water has
8 to recover the additional costs when it turns on the
9 Sydney Desalination Plant.
10
11 In terms of the cost pass-through mechanism,
12 Hunter Water is not seeking a mechanism in the 2016
13 determination. Some stakeholders supported a cost
14 pass-through mechanism using measures included in the
15 Lower Hunter Water Plan that are triggered by certain
16 defined events, such as falling dam levels. The
17 Lower Hunter Water Plan currently provides for drought
18 response measures such as water transfers from the
19 Central Coast and additional pumping from groundwater.
20 There was opposition to a broad cost pass-through
21 mechanism. Stakeholders were very keen for this mechanism
22 to be targeted.
23
24 That concludes my presentation. We have four
25 questions to discuss on water charges. The questions are:
26
27 Are Hunter Water's proposed water usage charges and
28 service charges reasonable?
29 Should the water usage charge be set with reference to
30 the long run marginal cost of water supply or should
31 greater weight be placed on customer preferences or other
32 factors?
33 Are Hunter Water's proposed location-based water usage
34 charges reasonable?
35 Lastly, should a cost pass-through mechanism for
36 alternative sources of water be developed and if so, for
37 which measures and how should this flow through to water
38 prices for customers?
39
40 Thank you.
41
42 THE CHAIRMAN: Thank you very much, Felicity. I will now
43 call on people at the table to make some comments. Would
44 anybody like to volunteer to go first? How about you,
45 Anita?
46
47 MS HUGO: Thank you. Anita Hugo, policy manager for the

1 Hunter Business Chamber. The Hunter Business Chamber is
2 the largest regional business chamber in Australia now.
3 We represent over 2,000 businesses, predominantly small to
4 medium enterprises but also encompassing some of the very
5 large national and international companies that are based
6 here in the Hunter.
7

8 The Hunter Business Chamber's engagement process
9 carries across a number of areas that are concerning
10 business and in terms of water usage and water plans,
11 we availed ourselves of the opportunity to get involved in
12 the engagement process for the Lower Hunter Water Plan on
13 behalf of our non-residential customers, Hunter Water
14 customers in the community, and I would have to say that in
15 terms of this particular review, there certainly haven't
16 been any major concerns expressed to us in regards to water
17 usage charges or service charges. Some of them,
18 particularly the smaller enterprises, will see some benefit
19 in terms of a decrease. That obviously comes as good news
20 for those organisations. I think the issues that
21 predominantly concern those organisations would be around
22 water supply stability and the very solid drought measures.
23

24 THE CHAIRMAN: Thanks very much, Anita. Kristal?

25
26 MS BURRY: Kristal Burry, Public Interest Advocacy Centre.
27 Yes, I think we would like to see pricing based on what
28 customers prefer, balanced with long run marginal costs
29 obviously, but yes, we would like to see that the pricing
30 are in response to that customer preference.
31

32 In terms of proposed usage and service charges, we
33 were a little concerned about the impact on apartments or
34 people who rent in units and apartments just because of
35 that doubling up of the increase in these service charges,
36 plus that change in the way that some of these other
37 charges are going to be increased, that we will discuss
38 later on, just because people who live in units and
39 apartments are becoming an increasing part of the
40 population and so we just have some concerns over that.
41

42 We have no comments in terms of location-based water
43 usage. If there is a cost pass-through mechanism
44 introduced, we would like to see that it be very specific
45 and have certain trigger levels put in place in order to
46 respond to that.
47

1 THE CHAIRMAN: Thanks very much Kristal. Leigh?

2
3 MR MARTIN: Thank you. Leigh Martin from the Total
4 Environment Centre. I think the two key issues for us that
5 we are covering in this part of today's proceedings are
6 price structures and also the location-based prices. It is
7 fair to say we have long been concerned for utilities like
8 Sydney Water and Hunter Water that the fixed charges
9 component of customers' bills are excessive and put a
10 severe limitation on the control that customers can
11 exercise over the size of their bills. By changing their
12 behaviour there is relatively little opportunity for them
13 to reduce their bills.
14

15 I think that is bad for customers, but it also sits
16 badly from the environmental point of view because it does
17 diminish the resource conservation signal that the user
18 paid system is intended to send.
19

20 We do not support the proposal to increase the water
21 access charge. We would like to see fixed charges
22 progressively reduced with a greater reliance on recovering
23 revenue from volumetric charges. I realise that exposes
24 Hunter Water to a degree of volatility in their revenue but
25 I believe that can be dealt with. We certainly think that
26 customers should be given more control and more incentive
27 to conserve water.
28

29 The other key point is location-based prices. We have
30 been consistently opposed to those since their
31 introduction. I am not going to disappoint you by changing
32 positions today. We do believe that they again send the
33 wrong signal to Hunter Water's largest customers. Those
34 are the very customers that should be encouraged to switch
35 to other sources of water such as effluent reuse.
36

37 We have seen in Hunter Water's own submissions to the
38 tribunal in the past they have acknowledged that this
39 location-based pricing was brought in in response to their
40 realisation that competition would be introduced in the
41 water sector and that's fine for Hunter Water to respond to
42 competition in the water sector. We would like to see them
43 doing that by promoting more effluent reuse rather than,
44 essentially, undercutting opportunities for large customers
45 to switch to alternate water sources.
46

47 THE CHAIRMAN: Thank you very much, Leigh. Cathy?

1
2 MS COLE: Thanks, Cathy Cole from DPI Water. The
3 Metropolitan Water Directorate is now a part of the
4 Department of Primary Industries in the Water branch and we
5 developed the Lower Hunter Water Plan in close consultation
6 with Hunter Water, other state agencies and stakeholders in
7 the community.
8
9 There are a few references to the Lower Hunter Water
10 Plan in the presentation this morning. The first
11 Lower Hunter Water Plan, which came out in 2014, was
12 largely driven by the need to have a good contingency plan
13 for drought measures, bearing in mind that on the supply
14 demand balance at that point in time a supply augmentation
15 wasn't needed in the near term.
16
17 That is obviously something that we keep a close eye
18 on every year. We have a monitoring and evaluation process
19 to make sure that we are continuing to track what's
20 happening with demand as well as the supply capability.
21 The next Lower Hunter Water Plan will probably need to look
22 more closely at what is the next supply augmentation
23 because of the lead time in which to develop a new scheme.
24 That leads us into long run marginal cost and that is
25 somewhat problematic when you don't have defined the next
26 supply augmentation.
27
28 We hope by the next price review that that would be
29 available but there are no guarantees and it is a
30 continuing process of checking what is actually happening
31 with demand and what is the timing when that might be
32 needed so that we don't bring anything forward before it is
33 necessary.
34
35 We think long run marginal cost is a useful signal
36 about the present and future costs of water. There are
37 also other factors that come into play, including customer
38 preferences and the importance of avoiding price
39 volatility. In the absence of any other measure on which
40 to base a long run marginal cost, we are comfortable with
41 continuing with the same one and that that feeds into a
42 strong price signal in the usage part of prices and that
43 that matches customer preferences of having a strong price
44 signal there and controllability and also avoiding
45 volatility and a sort of sawtooth response to the long run
46 marginal cost.
47

1 If a calculation was to be done it would need to be
2 hypothetical because there is obviously a lot more work to
3 be done through the Lower Hunter Water Plan in consultation
4 with stakeholders and the community and so it might have to
5 be a hypothetical based on there is a range of things that
6 you could do.
7
8 In terms of cost pass-through mechanisms, as a general principle
9 we are supportive of that approach. It is a bit of horses for
10 courses. Obviously, there is a cost pass-through mechanism
11 for the Sydney desalination plant. It is something
12 that could be explored for the drought response measures
13 for the Lower Hunter Water Plan. Whether
14 it is needed is something that I think we could certainly
15 talk further about with Hunter Water as well about how much
16 benefit it has. Many of the response measures have more
17 smaller operating costs but they could compound and if you
18 got into a very severe drought, there are measures that
19 would require capital investment and having a pass-through
20 mechanism may well be appropriate there and we could be
21 open to further discussion on that.
22
23 THE CHAIRMAN: Thank you very much, Cathy. I was
24 planning to call for a couple of speakers from the floor, then
25 let Hunter Water say something and then return to the floor.
26 Somebody from the floor? Yes, Rick.
27
28 MR BANYARD: Rick Banyard from the Property Owners
29 Association. The Property Owners Association is probably
30 the largest group of landlords that control. It pays a
31 large number of the bills and probably as many as
32 50 per cent of the people who turn on the tap actually are
33 not classified as customers under the customer contract.
34 I will make some comments about that after lunch.
35
36 I would like to say that water conservation is not
37 supported by a user pays pricing policy. We have to
38 remember that water is a very precious thing. 100 per cent
39 user pays is the simple answer to all of the problems of
40 water and answers most of those questions. It is the best
41 conservation tool. All users must pay exactly the same,
42 that is the Property Owners Association's view, but pricing
43 currently and as proposed is highly discriminatory.
44 I can't think of any other products that are discriminated
45 against in the same way. If you go to a service station
46 everybody pays the same price. If you plug the electricity
47 into your house, everybody pays the same price. In the

1 case of water, for some reason or other, we divvy it up so
2 that a whole lot of different people pay different rates
3 and that doesn't seem to be equitable. It doesn't treat
4 everybody evenly.
5
6 It is a very inefficient mechanism because in many
7 cases there is a requirement to actually have a secondary
8 bill. The bill is given to the landlord. The landlord may
9 be a residential landlord. In that case the landlord then
10 has the ability, under some circumstances, to issue a
11 second bill to the resident of the residential property and
12 that is only under some circumstances. A lot of them don't
13 get the second bill for a whole host of reasons.
14
15 The same thing applies in a commercial premises. It
16 isn't always the case that the tenant of a warehouse,
17 factory or shop will automatically get a bill and they
18 certainly don't get the bill from Hunter Water. The bill
19 is a secondary bill that has to be incorporated by some
20 other method. That is a very costly and inefficient
21 process and the Property Owners Association believes that
22 needs to be addressed.
23
24 That system also brings into play the position of
25 stopping modern techniques for billing being applied.
26 There are some operators in various parts of the world and
27 in Australia who are attempting to bring household billing,
28 for example, under one roof when they issue the person with
29 a bill and they pay so much a month to cover them for all
30 of their services and whatever. Because we have this
31 system where as many as 50 per cent of the people don't get
32 a bill and aren't eligible for a bill and they're not
33 eligible for the full bill under Hunter Water's proposal,
34 that type of modern system of billing cannot be introduced.
35
36 The last thing I would say is that Property Owners
37 Association is now considering the issue of whether
38 property owners are non-residential users or not and come
39 under a different category. A shopkeeper is not a
40 residential user, a building owner is not a residential
41 user, a motelier is not a residential building user, so
42 therefore, we think that perhaps landlords who are in the
43 process of retailing their residential accommodation are
44 also not residential users and we will be following that
45 up. Thank you.
46
47 THE CHAIRMAN: Thank you very much, Rick. Would

1 somebody else from the floor like to say something now?
2
3 MR DEITZ: My name is Bruce Deitz and I am currently the
4 secretary of the Residents Committee for Elermore Glen
5 Retirement Village. I represent the people who are there.
6 We have something like 275 residents at present and there
7 is village expansion going on where it will be expanding
8 the village from 155 villas to over 215.
9
10 Unfortunately, 90 per cent of the people who are there
11 are pensioners and they receive no discount whatsoever as
12 would happen if they were living in suburbia and we feel
13 that this is an inequity which needs to be addressed. We
14 are part of a residential community and these residential
15 communities, retirements villages, are expanding quite a
16 lot in the Hunter region and there is no specific category
17 describing them. We are not a strata-titled residential
18 village, yet, the only information that we can obtain is
19 for a stand-alone home or a strata unit, so it doesn't
20 apply to us in any way.
21
22 Our village may be unique, but an alternative that
23 could be considered is to have the village rated as a
24 single commercial enterprise rather than having it as it is
25 at present. One of the main things is we feel that there
26 needs to be a special requirement or category for
27 retirement villages which are expanding quite considerably
28 in the Hunter. Thank you.
29
30 THE CHAIRMAN: Thank you very much for that, Bruce.
31 Hunter Water, do you want to make any comments at this
32 stage before we move on?
33
34 MR SHIELDS: Peter Shields, Hunter Water Corporation.
35 Thank you, Dr Boxall. We have covered quite a few issues
36 there. We might step back and just look at the water
37 pricing issues as a starting point.
38
39 THE CHAIRMAN: Yes.
40
41 MR SHIELDS: Just on water, our engagement work for the
42 2012 price submission gave us a good idea of the importance
43 that customers place on bill controllability. That was
44 quite an extensive survey we did at that time.
45 Three quarters of our customers said they were concerned
46 that the current structure of charges gave them
47 insufficient opportunity to reduce their bills by reducing

1 water consumption and this message was repeated in the 2014
2 customer survey for the current price review.

3
4 We recognise that the water usage component is the
5 only part of the bill where customers can exercise control.
6 Hunter Water is mindful of the impact of any lowering of
7 the water usage charge. In this price submission we
8 propose a 2.8 per cent increase in the annual revenue
9 requirement for water. We are also proposing to hold the
10 water usage price constant in real terms so that the
11 residual by definition is recovered through the fixed water
12 service charge.

13
14 Hunter Water considers that the increase in dollar
15 terms is reasonable. The water service charge increases
16 from roughly \$18 in 2015-16 to roughly \$60 in 2019-20.
17 This is an increase of \$20 per bill cycle. As a proportion
18 of the water bill for a typical household, the proposed
19 variable component falls from 96 per cent to 88 per cent
20 over the price period.

21
22 While falling marginally, the water usage component
23 stays at a high level. Based on NPR data for 2013-14,
24 Hunter Water would still have the highest water usage share
25 of any major water utility in Australia and given the
26 movement in tariffs in a typical bill, the controllable
27 proportion of the average bill stays at 39 per cent under
28 our proposals.

29
30 On water usage charge, as mentioned by Cathy from
31 Metro, the Lower Hunter Water Plan didn't identify a supply
32 augmentation for the Lower Hunter. Consequently, we have
33 no project on which to do a revised calculation of a
34 forward-looking LRMC. We have one available estimate, our
35 current water usage charge, which is our best estimate.
36 The next iteration of the Lower Hunter Water Plan may
37 identify that supply augmentation and provides the basis to
38 calculate a revised estimate, but again, recognising our
39 customers' support for controllability, we think the
40 current setting is right. It aligns a high usage
41 component, it gives customers control and it delivers price
42 stability between price periods.

43
44 THE CHAIRMAN: Thank you very much, Peter.

45
46 MR BATH: I would just like to add a couple of comments.
47 One, noting Leigh's comment in regard to the increase in

1 the fixed charge for the water services charge, I just want
2 to place on notice that whilst, obviously, you were
3 disappointed in the \$50 increase in the fixed water charge,
4 I imagine you are complimentary of Hunter Water in our
5 suggestion of a \$60 reduction for the fixed charge for
6 wastewater services.

7
8 MR MARTIN: Certainly, we support any reduction in fixed
9 charges. It is our view that we need to go a lot further
10 with reducing fixed charges, so that the driving force
11 behind customers' bills is their actual water consumption.
12 I think we are a long way from achieving that.

13
14 MR BATH: Secondly, I would also like to place on record,
15 in regard to the suggestion of an end to location- based
16 charges for our 28 largest industrial customers, that
17 I would encourage any discussion of the removal of
18 location-based charging to be mindful of the perhaps unique
19 circumstances that the Hunter region is currently facing
20 economically.

21
22 I am sure that Kristal would be very mindful of the
23 job losses that have occurred in the region in the last
24 12 months. There are more than 3,000 documented job losses
25 that have occurred in the last 12 months.

26
27 I am also sure that Anita would be very conscious -
28 if IPART wishes to consider a reduction or an ending of
29 location-based pricing - of what the economic impact would
30 be on, essentially, those 28 largest industrial customers
31 of Hunter Water who are in many cases the economic engine
32 room of the region.

33
34 From Hunter Water's perspective, we are mindful that,
35 being a state-owned corporation, while we have business
36 drivers, we also have community obligations and from my
37 perspective and from Hunter Water's perspective that means
38 being very mindful of our role in terms of driving economic
39 growth, not introducing measures or supporting measures
40 which would undoubtedly be punishing some of our largest
41 employers in the region.

42
43 THE CHAIRMAN: Thank you very much, Jeremy. I will just
44 have a question from the secretariat to Hunter Water and
45 then call for further comment from the floor.

46
47 MR EDGERTON: Matthew Edgerton from the IPART Secretariat.

1 I would just like to ask Hunter Water if they could expand
2 on their view of a potential cost pass-through mechanism
3 for the costs of additional water supply augmentation in
4 times of drought or water scarcity.
5
6 MR SHIELDS: Thanks, Matt. We welcomed the proposal
7 outlined in your issues paper and the criteria you set out
8 in that proposal. Hunter Water sees this as being
9 particularly relevant when costs arise during a drought
10 event. The Lower Hunter Water Plan does include provision
11 for the construction of the temporary desalination as an
12 emergency response if water storages fall below
13 35 per cent.
14
15 One of the criteria in your cost pass-through
16 mechanism is that the determination must set out the
17 efficient costs that can be passed through to customers.
18 Hunter Water is in the process of undertaking concept
19 design for a possible desalination response. It is going
20 to take 18 months or more to complete the costing and the
21 proposed procurement arrangements. At this stage, we are
22 unable to provide the detailed break-down of likely
23 operating costs but we would like to keep this proposal
24 alive. It is something that we can revisit in the next
25 price review, at a time when we will have more certainty
26 about the possible costs of any water scarcity measures
27 that may form part of our plans at that point or are part
28 of a revised Lower Hunter Water Plan.
29
30 THE CHAIRMAN: Thank you, Peter. Would anybody else
31 from the floor like to ask a question or make a comment?
32
33 MS LAMBERT: Joan Lambert from the Older Women's
34 Network Newcastle. We would support a reduction in the
35 fixed costs and an increase in usage for two major reasons.
36 One is, of course, it gives the customers greater control over
37 the size of their bill by being economical with their use.
38 Secondly, we are concerned for the future that our
39 grandchildren and great-grandchildren will inherit and, as
40 a result, we would like to see a reduction in the use of
41 all resources.
42
43 I believe that Newcastle's incentive to install tanks
44 has been much less than Sydney's. If we increase water
45 charges it will encourage people to install tanks and
46 reduce the amount of water that they withdraw from
47 Hunter Water, which hopefully will reduce the need for

1 future capital expenditure.
2
3 THE CHAIRMAN: Thank you very much, Joan. Ben?
4
5 MR WILCOX: Good morning. My name is Ben Wilcox and
6 I represent myself as a home owner and also a landlord.
7 My comment is really in regards to the sewer service
8 charge.
9
10 THE CHAIRMAN: Ben, we're just about to go to that topic.
11 If your comments are with respect to sewer service charges,
12 do you want to wait until then?
13
14 MR WILCOX: Yes, okay.
15
16 THE CHAIRMAN: It won't be long. Thanks, Ben. Would
17 anybody else like to make a comment now? Any final
18 comments around the table before we move to sewer charges?
19 No? Thank you. I call on Chris Ihm from the secretariat
20 to introduce sewerage charges.
21
22 SEWERAGE CHARGES
23
24 MR IHM: Thank you, Peter. We would now like to discuss
25 sewerage charges, in particular sewerage service charges,
26 the non-residential sewerage usage charge and discharge
27 allowance and the method for calculating sewerage service
28 charges.
29
30 Firstly, sewerage service charges. Hunter Water's
31 proposal is to increase the sewerage service charge for
32 units by 27 per cent or about \$115 in real terms over the
33 four years to 2019-20. This is so that in the fourth year
34 of the determination units will pay the same sewerage
35 service charge as houses. In regards to non-residential
36 sewerage service charges, Hunter Water is proposing a
37 decrease for customers on stand-alone 20mm meters and an
38 increase for larger customers.
39
40 Our preliminary position in the issues paper was to
41 consider Hunter Water's proposals on these charges, in
42 particular, its proposed transition for the sewerage
43 service charge for units. In doing so we will consider the
44 impact on customers' bills, our approach for other water
45 utilities and stakeholder comments.
46
47 We received a few submissions on these issues. No

1 submissions objected in principle to units being charged
2 the same sewerage service charge as houses. However, there
3 were concerns over the impact of the increase on units over
4 the four-year period to 2019-20. One submission suggested
5 the possibility of transitioning the increase over two
6 determination periods. We also received a submission on
7 non-residential sewerage service charges that the proposed
8 charges do not distinguish for different sized commercial
9 units.
10
11 Secondly, the sewerage usage charge for
12 non-residential customers and the discharge allowance.
13 Hunter Water's proposal is to retain the current
14 non-residential sewerage usage charge in nominal terms at
15 67 cents per kilolitre. It is also proposing to increase
16 the discharge allowance for non-residential customers to
17 150 kilolitres per year by 2019-20.
18
19 Our position in the issues paper was to accept
20 Hunter Water's proposal on these items subject to
21 stakeholders' comments and our own further analysis. We
22 did not receive any submissions on these issues.
23
24 Lastly, the method of calculating sewerage service
25 charges. Currently, these charges are calculated such that
26 84 per cent of the revenue is raised from residential
27 customers and 16 per cent is raised from non-residential
28 customers. The 84 per cent and 16 per cent shares are
29 based on what residential and non-residential customers
30 have paid in the past. These fixed revenue shares result
31 in different charges for the same meter size. For example,
32 a house and a non-residential customer with one 20mm meter
33 are currently both charged about \$598. However, a
34 non-residential customer with multiple 20mm meters is
35 charged much more per meter, about \$951. This is assuming
36 an average discharge factor of about 80 per cent.
37
38 An alternative approach is to calculate the service
39 charges based on the number of deemed or actual 20mm
40 meters:
41
42 Houses could be deemed a 20mm metre;
43 Individual units could be deemed a share of a 20mm
44 metre while being transitioned; and
45 Non-residential customers could be charged according
46 to their actual 20mm equivalent.
47

1 This alternative approach would make charges
2 consistent for the same metre size. However, it is likely
3 to result in an increase to residential charges overall.
4
5 Hunter Water's proposal is to maintain the current
6 method of calculating service charges until the
7 transitioning of the sewerage service charge for units is
8 complete. It notes that the alternative approach would add
9 an additional impost to residential charges, in particular
10 for units.
11
12 Our position in the issues paper was that we would
13 consider impacts on customers, stakeholder's views and
14 Hunter Water's efficient costs. We received no comment
15 from stakeholders on this particular item.
16
17 Today we have a few questions we would like to
18 discuss:
19
20 Is Hunter Water's proposal to equalise the sewerage
21 service charge for flats and units with houses by 2019-20
22 reasonable?
23 Are Hunter Water's proposed sewerage usage charges and
24 discharge allowances for non-residential customers
25 reasonable?
26 Should the current method of calculating service
27 charges according to historical residential and
28 non-residential revenue shares be maintained?
29
30 THE CHAIRMAN: Thank you very much, Chris. We will
31 now have comments from the table. Kristal, do you want to
32 start?
33
34 MS BURRY: This is our main comment or question to Hunter
35 Water: I believe in the past determination period, you
36 were against the proposal to bring units or flats in line
37 with free-standing houses and now you have decided that
38 this is an acceptable approach. I guess we want a
39 clarification on how you made this decision. If it does go
40 ahead, we would like to see a transition to that approach
41 to smooth out that bill increase because it is quite a
42 significant increase for people.
43
44 THE CHAIRMAN: Thank you, Kristal. Hunter Water?
45
46 MR SHIELDS: Some of the reasoning behind the phased
47 increase in the charge for flats and units is that, one, it

1 it is stepped in over a four-year period. It increases
2 steadily until it aligns with the free-standing household
3 charge.

4
5 We were mindful that IPART had put forward an
6 alternate proposal to split the residential and
7 non-residential sewer revenues. We have not proposed to
8 adopt IPART's preferred model at this stage. We are
9 proposing to focus on the transition of flats and units
10 across the next price path.

11
12 The additional point to make on flats and units is
13 that IPART's pricing structures or pricing principles
14 require a uniform sewer charge for all residential
15 customers unless the water utility can provide evidence of
16 a material difference in the cost of servicing different
17 property types. All of the other metro water utilities -
18 Sydney Water, Gosford City Council and Wyong Shire
19 Council - charge a single common residential sewer charge.

20
21 In our previous submission, we had proposed an
22 increase from 65 to 70 per cent, which IPART accepted at
23 the time noting that it was continuing a transition
24 approach. The evidence that we had used to justify our
25 approach at that stage was based on some development
26 servicing plans from 2008 which had used data from 2003 or
27 earlier. When considering how we approached this issue
28 this time, we didn't think that we had the credible data to
29 support a number below 100 per cent eventually, so we did
30 contemplate how we would transition and we considered that
31 four years was reasonable.

32
33 THE CHAIRMAN: Thank you very much, Peter.

34
35 MR BATH: If I could just make it clear, Kristal,
36 essentially what you have seen is what was proposed was for
37 the transition to equalisation between homeowners and flat
38 owners over two price paths. That is essentially what has
39 happened. We started on that journey four years ago. As
40 Peter said, I think it went to 75 per cent and now we are
41 simply continuing that journey over the next four years
42 to get it up to 100 per cent.

43
44 THE CHAIRMAN: Kristal?

45
46 MS BURRY: Yes, I noted that, but I guess maybe I was
47 concerned that, over that four-year period, it was a 10 per

1 cent increase and now in this four-year period, it is a
2 25 per cent increase. I was concerned that the jump in
3 this period is more significant than the prior jump.

4
5 THE CHAIRMAN: Thanks, Kristal. Leigh?

6
7 MR MARTIN: I think the key issue for us again in relation
8 to wastewater charges is the impact of the fixed cost on
9 customers' ability to control their bill. I have never
10 quite understood the wisdom of moving away from a system
11 that Hunter Water previously had where there were usage
12 charges for both residential and non-residential customers
13 and a discharge factor was applied based on actual water
14 consumed.

15
16 We are concerned that these fixed charges again reduce
17 the resource conservation signal. We would like to see a
18 move back towards usage charges for residential customers
19 based on a discharge factor. We acknowledge it is not a
20 perfect system, but we certainly think there are advantages
21 to moving that way that unfortunately were lost when we
22 moved away from that.

23
24 It should also be borne in mind that it is not just
25 about conserving water and reducing demand for water, but
26 also that some of the costs of treatment and disposal and
27 certain environmental impacts of treatment and disposal are
28 proportional to the amount of water used and being
29 discharged into the sewerage system. We think it would be
30 appropriate to have a usage component to wastewater charges
31 for both residential and non-residential customers.

32
33 THE CHAIRMAN: Thank you very much, Leigh. Anita?

34
35 MS HUGO: Thank you. I would first like to support an
36 earlier comment about determinations on pricing being made
37 in consideration of the economic climate of the Hunter
38 region and the impact that this has on non-residential
39 customers who contribute significantly not only to the
40 regional economy but to the wider state and national
41 economy.

42
43 In regards specifically to sewerage usage price for
44 non-residential customers, we acknowledge that this varies
45 across the different mixes of water users and we support a
46 decrease being realised for those small applicable
47 businesses.

1
2 Specifically related to the nominal increases for
3 other businesses, we have received no negative feedback or
4 concerns around that. It is worth noting also that we have
5 not received any feedback or concerns in regards to the
6 impacts for different size commercial uses or the method of
7 calculating those prices.
8
9 THE CHAIRMAN: Thank you, Anita. Cathy?
10
11 MS COLE: No, I have nothing to add to that now, thanks.
12
13 THE CHAIRMAN: Thank you very much, Cathy. Okay, Ben?
14
15 MR WILCOX: Thank you, sir. I am representing myself and
16 I want to comment regarding the fixed service charge. As
17 homeowners, we only have one income coming in, and that's
18 my wife's income. She can't actually go to her boss and
19 say, "Sorry, I've just had an increase on my sewerage
20 charge and that sort of stuff so can I get a percentage
21 increase on my salary?" He would just laugh at her. Also
22 we can't pass those costs on to the tenants - well, I could
23 pass some of our costs on, but my tenant happens to be my
24 daughter. She is on a pension, so I try to incur some of
25 those costs.
26
27 Also could Hunter Water clarify to me where the
28 responsibilities lie with regard to pipes, the pipeworks on
29 a property? I understood that Hunter Water was responsible
30 for them up to the home, but I understand that has changed,
31 so there is a potential cost savings there.
32
33 Also, you have a fixed water service charge. I know
34 of very few companies that actually have an environmental
35 improvement charge. If you go and change your tyres, they
36 charge you \$2.50, or whatever it is, but you have three
37 fixed service charges.
38
39 THE CHAIRMAN: Thank you, Ben. Hunter Water, would
40 you like to comment on the pipe issue?
41
42 MR SHIELDS: Can I comment on the impact of the flats and
43 unit charge in terms of bills.
44
45 THE CHAIRMAN: Sure.
46
47 MR SHIELDS: About 80 per cent of our customers live in

1 free-standing houses and 20 per cent live in flats and
2 units.
3 There is a saving for the
4 owners of free-standing houses. Their bills come down from
5 \$598 to just under \$550 across the price path, and the
6 impact on flats and units in real terms is an additional
7 \$30 a year compound. So with the \$30 a year increase and a
8 reduction for households, there was some judgment in making
9 that decision, but we think overall it is reasonable across
10 the four years.
11
12 THE CHAIRMAN: Thank you, Peter. Has there been a
13 change of policy in terms of the maintenance of pipes?
14
15 MR BATH: I'll answer that.
16
17 THE CHAIRMAN: Thank you, Jeremy.
18
19 MR BATH: The actual policy itself has not changed. It is
20 consistent with the vast majority of water utilities across
21 the country. What has changed, Ben, is the way that we
22 enforce it. I guess it's fair to say that we had an overly
23 generous interpretation of that policy where we were
24 essentially going well beyond what our policy actually
25 said. We still maintain that, as I described, generous
26 interpretation of the policy for pensioners and people who
27 are suffering from genuine financial hardship.
28
29 THE CHAIRMAN: Thank you for that, Jeremy. Is there
30 anybody else from the floor? Yes, Rick.
31
32 MR BANYARD: As far as the sewer service charges are
33 concerned, I draw attention again to the fact that about
34 50 per cent of occupants do not pay any charge at all.
35 That is not right. That is not reasonable.
36
37 The second thing is where is the discharge meter? We
38 have talked about discharge meters before, but there is no
39 evidence of discharge meters being put in place. I can't
40 get petrol out of a service station unless I pay what the
41 meter says.
42
43 The other thing is there has been encouragement for
44 people to have alternate water supplies, water tanks and
45 all those other things. The material that is coming out of
46 those tanks - for example, if you flush the toilet - is
47 still going down the sewer system, so those people do not

1 have their input water metered either.
2
3 Dual occupancy properties pay the same. Is that fair?
4 There is no conservation. With water conservation going
5 on, there have been no savings passed on. Surely to
6 goodness, if we have been reducing the water consumption of
7 the Hunter area, then the discharge into the sewer system
8 should also have been reduced. Thank you.

9
10 THE CHAIRMAN: Thank you, Rick. Jeremy?

11
12 MR BATH: Ben, you raised the issue of the EIC and it
13 being a fixed charge. I understand we will be speaking
14 about that later, so I will answer that component of your
15 question at the appropriate time.

16
17 THE CHAIRMAN: Thank you.

18
19 MR GORTON: My name is Les Gorton. I'm here today
20 representing a group from Elernmore Glen Village. I would
21 like to comment that it just seems a little bit anomalous
22 to me that when you look at your rates for sewerage usage,
23 flats and unit over the period of five years will increase
24 by 27 per cent and houses - under the definition of
25 houses - will decrease over the same period by minus 8 per
26 cent. Over the same period, non-residential, small
27 customers are decreasing by minus 8 per cent. Flats and
28 units in that category are the only ones that are actually
29 increasing. It just seems rather anomalous.

30
31 THE CHAIRMAN: Thank you very much, Les. We will take
32 further comments from the floor. Would somebody like to
33 respond to Les's point just to go through again why there
34 are differences.

35
36 MR BATH: Two things: it may well be the case, Les, that
37 you weren't aware that, forever and a day, homeowners have
38 been substantially subsidising the fixed sewer charge of
39 people who live in flats and units, so you might not have
40 been aware of that. What we are essentially proposing is
41 everyone pay the same. It is all about fairness. Why
42 should someone who lives in a home be subsidising the fixed
43 sewer charge that you enjoy while living in an apartment?
44 Secondly, Hunter Water notes that the major driver for
45 sewerage infrastructure costs is not necessarily meter size
46 or the number people per dwelling but wet weather overflow
47 design criteria.

1
2 All customers benefit from building and maintaining a
3 system that can cope with wet weather conditions when there
4 are flows that are a multiple of dry weather customer load.
5 Essentially, we all benefit from being able to design a
6 system that prevents wet weather overflows, regardless of
7 whether we live in a home or whether we live in a unit and,
8 therefore, we should all be paying the same price.

9
10 THE CHAIRMAN: Thank you very much, Jeremy. Would
11 anybody else like to speak from the floor? Around the table?
12 Matt?

13
14 MR EDGERTON: It has been mentioned that Hunter Water
15 used to have a sewerage usage charge for residential customers
16 and it has also been suggested that that should be
17 reintroduced. Could Hunter Water tell us your views on a
18 sewerage usage charge for residential customers.

19
20 MR SHIELDS: Sure. We had this discussion and debate
21 back in 2008-2009. At the time, Hunter Water put forward a
22 number of reasons for ending sewer usage charge for
23 residential customers. The primary reason was that our
24 customers didn't like it and complained frequently about
25 not understanding how the charge was calculated and then
26 applied.

27
28 The charge applied only to a small proportion of the
29 sewerage usage bill - less than 20 per cent - hence the
30 charge didn't really provide a strong price signal. The
31 bulk of sewer discharges are non-discretionary on a health
32 basis - it's bathing, cooking and toilets. Post the
33 introduction of the BASIX requirements, some properties
34 would have a lower water usage component even when they
35 are discharging the same volumes of water.

36
37 To really do sewer usage pricing properly, you would
38 need to meter individual homes and to retrofit 230,000
39 existing properties would be prohibitive. We think, in
40 terms of the price signals and the administrative costs of
41 doing it, we are happy with the tariff structure as it is
42 currently.

43
44 THE CHAIRMAN: Thank you, Peter. Are there any other
45 comments on sewerage and sewerage charges? We have the
46 best of both worlds - we are having a very good discussion
47 and we are ahead of schedule. We will move on to

1 stormwater. First, on the stormwater and other charges,
2 Felicity will introduce the topic.
3
4 **STORMWATER AND OTHER CHARGES:**
5
6 **MS HALL:** Thanks, Peter. Hunter Water has a number of
7 different charges in its pricing proposal. In this
8 session, we will only cover some of these charges
9 specifically stormwater charges, trade waste charges,
10 miscellaneous and ancillary charges, but if anyone in the
11 audience has comments on other charges, this will be your
12 opportunity to raise them at the end of this session.
13
14 Stormwater services are largely the responsibility of
15 local councils in Hunter Water's areas of operations.
16 Hunter Water levies charges on customers in those areas
17 which are serviced by its stormwater channels and it's
18 about a quarter of its customer base.
19
20 Hunter Water is proposing to maintain the existing
21 price structure for stormwater charges for both residential
22 and non-residential customers. For residential customers,
23 the standard charge is increasing in real terms by 6 per
24 cent for houses and 4 per cent for flats and units over a
25 four-year period.
26
27 For non-residential customers, there are four
28 area-based categories of charges. This basically reflects
29 the relationship between land area and stormwater runoff,
30 and these charges are increasing in real terms by 6 per
31 cent over the period.
32
33 Issues raised in submissions in relation to stormwater
34 charges include:
35
36 Charges should be catchment based and linked to
37 environmental impacts.
38 Charges should reflect customer expectations and avoid
39 over-recovery; and
40 Rebates should be provided to those customers who
41 install onsite stormwater management facilities.
42
43 We have engaged an expert consultant to review Hunter
44 Water's proposed stormwater expenditure and its long-term
45 investment plans.
46
47 Next we consider trade waste charges. Trade waste

1 charges reflect the costs and risks of treating wastewater
2 discharged from commercial and industrial customers. These
3 charges can include trade waste agreements and inspection
4 fees, certain high strength charges, and tankering charges.
5
6 Hunter Water is proposing to maintain the existing
7 trade waste charges and to increase them in line with
8 inflation. It is also proposing a new charge to vary the
9 tankering service agreements to recover the costs of
10 accepting the trade waste discharge at treatment plants
11 which was not included in its original agreement.
12
13 We will review Hunter Water's trade waste charges and
14 consider stakeholder feedback. However, we didn't receive
15 any submissions on trade waste charges.
16
17 The last area to talk about is the miscellaneous and
18 ancillary charges. These charges are a number of
19 non-contestable one-off charges which are levied on a small
20 number of Hunter Water's customers. Some examples of these
21 charges include things like provision of conveyancing
22 certificates, application fees for water supply
23 reconnection, and special meter readings.
24
25 Hunter Water calculates these charges according to our
26 miscellaneous charges methodology and has proposed charges
27 for 55 services. In its proposal, Hunter Water is
28 proposing to increase 19 of these charges and an example is
29 the application fees for water service connection and
30 disconnection. Hunter Water is proposing to decrease six
31 charges and to discontinue some other charges which are
32 related to third party certification of some developer
33 works.
34
35 Also Hunter Water is proposing to maintain its
36 irregular and dishonoured payment fees. These fees are
37 charged if a customer's cheque is declined or a direct
38 debit is declined as part of a payment.
39
40 In terms of the miscellaneous ancillary charges, IPART
41 supports Hunter Water's proposal subject to any stakeholder
42 feedback and our own analysis, and again we did not receive
43 any submissions on these charges.
44
45 Now to the questions to consider in this session.
46 They are:
47

1 Are Hunter Water's proposed stormwater drainage
2 charges reasonable?
3 Are Hunter Water's proposed trade waste charges
4 reasonable?
5 Are Hunter Water's proposed miscellaneous and
6 ancillary charges reasonable and, in particular, is the
7 proposed dishonoured payment fee reasonable?
8
9 Also this is your opportunity to talk about any other
10 charges in this session, thank you.
11
12 THE CHAIRMAN: Thank you very much, Felicity.
13 Comments from around the table. Anita?
14
15 MS HUGO: Thank you. I guess it's worth noting that the
16 Hunter Business Chamber has not received any feedback
17 opposing the proposal for stormwater, trade waste or
18 ancillary charges.
19
20 THE CHAIRMAN: Thank you, Anita. Leigh?
21
22 MR MARTIN: Thank you, and I'll confine my remarks to the
23 stormwater charges. It is certainly our view that
24 stormwater charges should be proportional to the
25 contribution of a property to the stormwater
26 system. In that respect, charges based on the area of a
27 property is a useful starting point, but I do think there
28 is room for a more sophisticated approach to stormwater
29 charging - if not in this pricing round, then I would
30 encourage the tribunal and Hunter Water to pursue it in the
31 next - and that is to look at the proportion of a property
32 which comprises impervious surfaces as opposed to pervious
33 surfaces because that will have a direct influence on the
34 amount and the quality of stormwater that a property
35 contributes to a system.
36
37 There is room also for looking at options for rebates
38 or reductions for customers who have introduced water
39 sensitive urban design features that reduce the
40 contribution of their property to the stormwater system.
41
42 I would also like to pose a question for Hunter Water.
43 In the previous pricing hearing, we were very encouraged by
44 the work that Hunter Water has been doing towards the
45 Throsby Creek restoration and I would be interested in
46 hearing from Hunter Water about its progress on that
47 project.

1
2 THE CHAIRMAN: Thank you, Leigh. Would Hunter Water
3 like to address the Throsby Creek question?
4
5 MR BATH: Sure. Throsby Creek is an important part of
6 Newcastle's region. There is a committee, which we
7 recently started up again, which is chaired by the member
8 for Newcastle, Tim Crakanthorp. It has brought together a
9 number of stakeholders. We are working through an agenda
10 at the moment.
11
12 One thing I can indicate is that, essentially, Hunter
13 Water's primary objective over the next four years is to
14 see the dredging of Throsby Creek. There are a number of
15 issues that have come about with the sediment build-up over
16 probably the last 20 years. That is our primary focus, but
17 there is also the beautification of the creek that Hunter
18 Water is committed to, but recognising that Hunter Water is
19 just one of a multitude of stakeholders for Throsby Creek.
20 However, we are working on it and there will be a committee
21 meeting that I think is actually happening this week, maybe
22 Wednesday.
23
24 THE CHAIRMAN: Thank you, Jeremy. Cathy?
25
26 MS COLE: No, I have nothing to add to that one, thank
27 you.
28
29 THE CHAIRMAN: Kristal?
30
31 MS BURRY: I have a query about the dishonoured payment
32 fee. Are there any protections put in place for people who
33 are on hardship programs already in case they have a
34 bounced payment and then incur this fee?
35
36 MS CUSHING: Fiona Cushing from Hunter Water Corporation.
37 In terms of the dishonoured payment fees at the moment we
38 do take it on a case-by-case basis. It is effectively a
39 charge that we apply to recover the charges that we incur
40 from our financial institution and it certainly is part of
41 what is assessed through the customer care and billing team
42 in the customer services area. So accounts that are
43 identified as going through financial hardship do have a
44 flag on them and we do look at them.
45
46 MS BURRY: Thank you.
47

1 THE CHAIRMAN: Thank you very much, Kristal and Fiona.
2 Anybody from the floor? Ben, you had a question about the
3 environmental charge.
4
5 MR WILCOX: I won't speak on the environmental charge, but
6 with the stormwater creeks, can you clarify something for
7 me? One of the properties I have is in Weston. In April
8 when we had the storms, the house at Weston got flooded due
9 to all the creeks.
10
11 We have been battling Cessnock City Council for a
12 number of years in regards to dredging of those creeks.
13 There have been environmental impact studies done since the
14 early 1990s and nothing still has been done. So why should
15 there be an extra charge put on customers in that region
16 for environmental issues when we have problems with the
17 environment? Thanks.
18
19 THE CHAIRMAN: Thanks, Ben. Jeremy?
20
21 MR BATH: Hunter Water has a responsibility for only a
22 very small part of the stormwater infrastructure in
23 Cessnock. My understanding is that the area we are
24 responsible for in terms of the Cessnock LGA is very much
25 the town centre. I will take that on notice, but my
26 expectation is that responsibility for the asset that you
27 are referring to lies wholly and solely with Cessnock City
28 Council.
29
30 MR BATH: I am sorry to buck-pass, but there is not much
31 I can do.
32
33 MR WILCOX: That's all right, but I was hoping.
34
35 THE CHAIRMAN: Thank you, Jeremy. Would anybody else
36 from the floor like to ask a question on stormwater and other
37 charges?
38
39 Leigh, you raised a point about having the stormwater
40 charges rather than just being area based. There was one
41 option on the slides about properties of 1,000 square
42 metres or less - so-called "low impact" - being treated on
43 a different basis which, in a sense, is a step in the
44 direction that you are advocating.
45
46 Are there any other comments on stormwater or
47 ancillary charges, around the table? Hunter Water, do you

1 want to do the presentation that you were hoping to do
2 before? Would you like to do it now?
3
4 MR SHIELDS: It's capex and opex. So it might be better
5 to do that after the next session.
6
7 MS CUSHING: Yes, I think after the next session would be
8 better.
9
10 THE CHAIRMAN: That does bring us to an early lunch. I am
11 told lunch is five minutes away. I suggest, if everyone is
12 agreeable, that we break now and rather than resuming at
13 1.15, we could resume at 1 o'clock. Thank you very much.
14
15 LUNCHEON ADJOURNMENT
16
17 UPON RESUMPTION
18
19 THE CHAIRMAN: Welcome back. For anybody newly
20 joining us, my name is Peter Boxall and I am Chair of the
21 Independent Pricing and Regulatory Tribunal, IPART. I am
22 joined today by one of my fellow tribunal members,
23 Catherine Jones. We have a number of the members of the
24 IPART secretariat with us also.
25
26 The purpose of this afternoon's session is for us to
27 hear views on any other issues that are relevant to this
28 review of Hunter Water's prices. Similar to the first
29 session today, IPART's Secretariat will give a brief
30 introduction to each of the topics we would like to discuss
31 in this session and I will then invite participants around
32 the table, but first we will start with Hunter Water's
33 presentation which was held over from this morning. Thank
34 you very much, Fiona.
35
36 HUNTER WATER'S PRESENTATION
37
38 MS CUSHING: Good afternoon, everybody, and I apologise to
39 you all for the slight technical hitch that we had this
40 morning.
41
42 The predominant focus of this presentation, and it is
43 probably more timely to do it at this point, is to go
44 through the operating costs and capital expenditure
45 proposal, at least the underlying broad principles of that
46 and how that then has flowed into our customer pricing.
47

1 One of the key things that Hunter Water is incredibly
2 proud of - and it was mentioned this morning in Jeremy's
3 opening speech - is around the fact that Hunter Water has
4 the lowest combined water and sewer operating costs per
5 property in the country and not just by some small margin.
6 We are approximately 40 per cent lower than the median of
7 all other Australian water utilities and, as can be seen by
8 this particular slide, we are significantly lower and
9 continue to remain lower than Sydney Water, Wyong Shire
10 Council and Gosford City Council.
11
12 In terms of the current determination period and our
13 regulated operating expenditure, this chart, effectively,
14 provides a year-on-year comparison. In 2013-14 we spent
15 below the IPART approved amount. For 2014-15 our actual
16 expenditure was broadly in line with the IPART determined
17 efficient operating costs and then for 2015-16 we were
18 again forecasting to come in under the IPART deemed
19 efficient operating costs.
20
21 There are a number of reasons for this and I suppose
22 for 2014-15 one of the things I would like to point out is
23 in that particular year we had the transition to the new
24 treatment operations contract with Veolia and in addition
25 to that, we had what we alternately refer to as either the
26 April super storm event or the east coast low that impacted
27 significantly on the operating costs of Hunter Water,
28 somewhat in the order of \$3.5 million to \$4 million in
29 operating costs as a result of that single event. If it
30 had not been for that we would have achieved well below the
31 IPART approved efficient expenditure.
32
33 What that then means for the next price determination
34 is that while we do have a modest real increase of around
35 1.2 per cent per annum, we are starting from a base that is
36 already \$5 million lower than what was deemed to be
37 efficient at the last determination period. Effectively,
38 of the savings that we have managed to achieve in the
39 current price period, we are actually maintaining that and
40 embedding around \$5 million a year in the base.
41
42 In terms of that, the other key thing I suppose
43 I would like to point out is that we have forecast an
44 approximately 1.3 per cent increase in customer
45 connections, so in an operating cost per property sense we
46 are still forecasting that that will go down in real terms.
47

1 To move on to capital expenditure, there is a slight
2 item that I would like to draw out that perhaps is not
3 immediately apparent in looking at the issues paper and
4 that is the fact that within Hunter Water's current
5 expenditure for this price path we are spending I think
6 it's around \$35 million in relation to projects that were
7 not completed in the last year of the previous
8 determination. Those amounts were deemed to be prudent and
9 efficient by IPART, so we are recovering prices for those
10 projects.
11
12 As a result, in this current price period we are
13 actually continuing to deliver those projects so that we're
14 not being compensated for projects that we have not
15 actually delivered and that have not delivered a benefit to
16 the community.
17
18 The basic premise of the four-year price determination
19 or the coming determination for capital expenditure is for
20 on average around \$97 million per annum to be spent. The
21 key driver continues, as it was for the previous
22 determination period, continuing to comply with mandatory
23 standards and ensure that our asset and service reliability
24 continues so that customers continue to achieve and obtain
25 the same level of service from Hunter Water as they have
26 done.
27
28 There is a smaller component that relates to growth,
29 business decisions and other components. In terms of
30 business decisions, the bulk of that expenditure actually
31 relates to projects such as information technology whereby
32 we need to continue to update and improve our systems to
33 provide better benefits to the broader community and ensure
34 the business is as efficient as possible.
35
36 Over a 10-year period, while there are movements in
37 and around some of the various product categories,
38 generally speaking, our proposal is to remain at around the
39 average of \$97 million to \$100 million per annum of capital
40 expenditure.
41
42 The basic driver behind Hunter Water's approach on
43 this is that we need to continue to be prudent in what we
44 do for our capital expenditure to ensure that we harvest as
45 much efficiency out of the assets that we have and to also
46 ensure that we appropriately allocate items and ensure that
47 we are spending money where it is required at the moment.

1 The wastewater category here is actually driven by standard
2 requirements in terms of the Environmental Protection
3 Agency.

4
5 I won't go through in detail the revenue requirements,
6 we've gone through those already, but I will just spend a
7 little bit of time on a typical residential stand-alone
8 bill. As has previously been flagged this morning, the
9 water bill is going up by around \$40.83, but that fixed
10 charge cost increase has actually been offset by a
11 reduction in the sewer service charge, leading to
12 approximately a decrease of 8 per cent.

13
14 Just to pick up on a comment or a query that was
15 raised earlier, I think it was by Ben, around the
16 environmental improvement charge, this is an item where
17 every utility in the country has something similar to this,
18 but we are I believe the only utility that actually draws
19 it out as a separate item on its customer bill. Every
20 other utility has some form of this charge which is,
21 effectively, paying for a number of properties to actually
22 be connected to the sewer.

23
24 We have a large number of water connections where we
25 do sewer connections. Through a range of different
26 reasons, there are some pockets of the community that
27 remain unsewered. There is an underlying and inherent
28 benefit to the environment to actually sewer those
29 properties. In doing so the broader community actually
30 contributes towards that, as well as those property owners
31 that are actually benefiting from it directly as well.

32
33 MR BATH: We are just up-front and honest about the levy
34 whereas everyone else buries it and hides it.

35
36 MS CUSHING: Yes, that is right. Other utilities have it
37 within their sewer service charge. It is Hunter Water's
38 position and always has been, since the introduction of the
39 levy back in the early '90s, that we would be transparent
40 about that in an ongoing manner for as long as that levy
41 may exist.

42
43 THE CHAIRMAN: Thank you very much, Fiona.

44
45 I now call on Chris from the secretariat to give a
46 brief introduction.

47

1 SESSION TWO: OTHER ISSUES (EG, OPERATING AND
2 CAPITAL EXPENDITURES, WATER DEMAND FORECASTS)

3
4 EXPENDITURES AND WATER DEMAND

5
6 MR IHM: Thank you, Peter. The first part of this session
7 will cover Hunter Water's proposed operating and capital
8 expenditure and also water demand. We note that
9 Hunter Water has just given a presentation on operating and
10 capital expenditure, so we will try and keep this brief.
11 As per our earlier session, we will highlight issues that
12 the submissions have raised.

13
14 Hunter Water's current operating expenditure is about
15 \$127 million per year and a large proportion of its costs
16 are salaries and wages, operations and treatment and
17 maintenance. In its proposal, as mentioned by Fiona,
18 Hunter Water is proposing \$532.5 million in operating
19 expenditure over the four-year period to 2019-20 which is
20 on average about \$133 million per year. This is higher
21 than its current expenditure of about \$127 million over the
22 current determination period.

23
24 In terms of efficiencies, it reports that it has
25 achieved about \$35 million in the current period and in the
26 forecast period it is estimating about \$4.9 million.
27 According to Hunter Water, its key additional costs are
28 labour, electricity, costs associated with the Lower Hunter
29 Water Plan and operational activities. To assist us in
30 assessing Hunter Water's expenditure, we have engaged an
31 expert consultant to review past and proposed operating
32 expenditure.

33
34 Briefly on capital expenditure, Hunter Water is
35 proposing \$387.7 million over the four years to 2019-20.
36 This is on average \$96.9 million per year which is similar
37 to its expenditure of \$95.4 million over the current
38 determination period. However, its current expenditure is
39 about 14 per cent higher than what we have reflected in
40 prices in the current determination.

41
42 Large components of this expenditure are wastewater
43 projects of about \$184 million and water supply projects of
44 about \$148 million. Similar to our assessment of operating
45 expenditure, we have engaged an expert consultant to review
46 Hunter Water's past and proposed capital expenditure,
47 investment plans and asset management systems and

1 practices.
2
3 We received a few submissions that highlighted the
4 following issues. Proposed expenditure needs to be
5 sufficient to be able to meet obligations. Stormwater
6 expenditure should include assessment, rehabilitation and
7 replacement of stormwater channels. Hunter Water needs to
8 justify the costs of promoting itself and that water costs
9 are unfairly high in the Hunter region.
10

11 An important aspect of Hunter Water's proposal is its
12 asset recycling program. As mentioned previously by
13 Hunter Water, some of the assets it has sold are its head
14 office in Newcastle and its subsidiary Hunter Water
15 Australia. Hunter Water is proposing to remove the
16 regulatory value of these assets from its regulatory asset
17 base. To assist us in reviewing Hunter Water's proposals,
18 we have also asked an expert consultant to advise on the
19 prudence and efficiency of Hunter Water's asset recycling
20 program.
21

22 We will now provide a brief overview of Hunter Water's
23 water demand and customer connections before discussing
24 some questions in relation to these items. In
25 Hunter Water's proposal it is projecting growth in water
26 demand for residential customers of about 0.2 per cent per
27 year and 1.9 per cent for non-residential customers. In
28 terms of water connections growth, it is forecasting growth
29 of about 1.3 per cent per year for residential customers
30 and 1.4 per cent per year for non-residential customers.
31 In our issues paper our position was that we would examine
32 the key assumptions used by Hunter Water to forecast water
33 demand and customer numbers.
34

35 We also indicated that we are inclined to maintain a
36 provision for demand volatility adjustment to mitigate for
37 potential revenue over or under-recovery.
38

39 In response to our issues paper, the following issues
40 were raised: Forecast growth in non-residential demand
41 indicates a need to reform price structures. There needs
42 to be support for higher level water restrictions to
43 prevent expensive supply augmentation and the current
44 threshold in the demand volatility mechanism should be
45 reconsidered.
46

47 Some questions that we have in relation to expenditure

1 and water sales are:

2
3 Are Hunter Water's proposed operating and capital
4 costs over the 2016 determination period efficient, taking
5 into account drivers of this expenditure and service levels
6 achieved?

7 What scope is there for Hunter Water to achieve
8 further efficiency gains over the 2016 determination
9 period?

10 Are Hunter Water's forecast water sales and customer
11 numbers reasonable?
12

13 THE CHAIRMAN: Thank you very much, Chris. I will call
14 for comments around the table first. Cathy, do you have
15 anything?
16

17 MS COLE: Thanks, Peter. Just a minor comment - the Lower
18 Hunter Water planning costs are included in Hunter Water's
19 submission. Long-term water planning for growth and for
20 drought security are clearly an important role of the water
21 utility and has long been included in Hunter Water's role.
22

23 Since 2011, the government determined that the
24 Metropolitan Water Directorate would lead the process for
25 that long-term water planning and we worked very closely
26 with Hunter Water and other agencies in developing the
27 Lower Hunter Water Plan. Hunter Water has, in fact, funded
28 that process since 2012 and it has proposed in this price
29 submission that Hunter Water continue to fund that function
30 as part of its role.
31

32 Effectively, that is a part that Hunter Water is
33 outsourcing and it is considered appropriate to be able to
34 recover those costs from its customers who are the
35 beneficiaries of that work. That was the main comment and
36 it is fairly small in the overall scheme of things, just to
37 note our role in that.
38

39 THE CHAIRMAN: Thank you very much, Cathy. Kristal or
40 Leigh?

41 MR MARTIN: I don't have too much to add on this except
42 I think probably the tribunal is better placed to judge the
43 efficiency of Hunter Water's costs than we are. We are
44 certainly of the view that there needs to be sufficient
45 revenue to ensure that Hunter Water can continue to meet
46 all its obligations, implement the Lower Hunter Water Plan,
47

1 and also we are very keen to see, as I mentioned before in
2 relation to the Throsby Creek restoration, that stormwater
3 be managed in a way that restores canals to stormwater
4 condition wherever possible. We would be keen to see that
5 considered in efficient costs because there are benefits to
6 the community and the environment in doing that.

7
8 THE CHAIRMAN: Thank you, Leigh. Kristal?

9
10 MS BURRY: At this time I don't have any major comments or
11 questions, but I may at some other point.

12
13 THE CHAIRMAN: Thank you. Are there any questions or
14 comments from the floor? Geoff.

15
16 MR EATHER: My name is Geoff Eather. I am a resident of
17 Metford. I didn't really expect to be here at all.
18 I wrote a letter to Hunter Water on 28 July. I haven't had
19 a response and I thought then that it was appropriate that
20 I could raise the question that I raised with them, at this
21 time, with your indulgence. It is only a short letter:

22
23 I write with reference to the current media
24 campaign promoting Hunter Water. Can you
25 please advise what the justification is for
26 Hunter Water expending funds on this type
27 of promotion considering that Hunter Water
28 is, to my knowledge, a monopoly water
29 service provider in the Lower Hunter
30 region?

31
32 Considering that your customers are subject
33 to ongoing water restrictions, I don't
34 believe your promotion would or should be
35 in the interests of selling more water
36 services to your captive customers in the
37 Hunter region. I can only presume that the
38 campaign is being conducted to promote the
39 corporate image of Hunter Water.
40 I believe that such a campaign could be
41 considered an improper use of funds that
42 are provided by your captive customers and
43 as such express my objection to same.

44
45 Would you please comment on the matters
46 I have outlined above and provide me with
47 the budgeted and actual costs of this

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1 campaign?

2
3 That campaign I think was May/June/July, on television,
4 radio, I'm not sure about the press. Thank you.

5
6 THE CHAIRMAN: Thank you, Geoff. Hunter Water, would
7 you like to respond?

8
9 MR BATH: Mr Eather, I responded to your email on 3 August
10 at 11.46am. That was the same day that Hunter Water
11 received your correspondence. I am happy offline to
12 provide you with a printed copy of that email. Obviously,
13 it has been lost and we will confirm that the email address
14 that we were supplied was the correct one, but for the
15 record I will read you my email. It is not too lengthy:

16
17 Dear Mr Eather,

18
19 The Managing Director has asked me to reply
20 to your letter dated 28 July given my
21 responsibility for the current marketing
22 campaign you have requested information
23 about.

24
25 The likely cost of the campaign is \$86,000
26 spread across NBN TV, Prime TV,
27 Southern Cross 10 Newcastle, the
28 Newcastle Herald, KOFM, 2HD and 2NURFM.
29 The campaign will run for eight weeks and
30 commence on 1 July 2015.

31
32 The campaign has been funded within the
33 existing advertising budget of
34 Hunter Water. Hunter Water's prices are
35 set in four-year blocks and as such, this
36 campaign will not have any impact on water
37 prices during the next 12 months.

38
39 Contrary to your claim in your letter,
40 Hunter Water is not a monopoly water
41 service provider. Under the WICA Act of
42 2006, competition is allowed in the
43 New South Wales water sector. There are
44 currently five developments, estimated
45 combined 10,000 homes, underway within
46 Hunter Water's area of operations which
47 will receive water and sewer services via a

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1 company called Flow Systems.
2
3 It is Hunter Water's expectation that
4 approximately 30,000 homes will be
5 connected to a private network operator
6 within the next 10 years, which is more
7 than 10 per cent of the local housing
8 market.
9
10 Furthermore, no-one is captive to being a
11 Hunter Water customer. There are several
12 thousand customers who choose to be
13 disconnected from our water supply for a
14 variety of reasons and instead source their
15 water elsewhere, presumably most from
16 rainwater tanks but some from commercial
17 water carters. With this comes a risk to
18 health as rainwater is untreated and lacks
19 chlorine and fluoride, among other
20 necessary chemicals.
21
22 There are also many thousands of homes in
23 the Lower Hunter who choose not to be
24 connected to the Hunter Water sewer system.
25 Septic systems not maintained correctly
26 also provide a significant health risk to
27 the environment and community.
28
29 The purpose of the campaign was not to
30 encourage water use but rather to promote
31 Hunter Water as a responsible and
32 forward-thinking water utility. It is
33 crucial that our customers recognise
34 Hunter Water as a trusted and responsible
35 water utility that is focusing on both the
36 needs of today but also the longer term.
37
38 The Department of Planning forecasts that
39 the population of the Hunter will hit
40 1 million people by the year 2050, which
41 understandably seems a lifetime away for
42 most people, but in terms of planning water
43 and sewer infrastructure upgrades it is not
44 that far away, given the need to raise
45 funds and adequately plan, design, build
46 and commission.
47

1 I assure you Hunter Water is extremely
2 careful with its funds. For the financial
3 year just finished, Hunter Water's
4 operating expenditure was several million
5 dollars under budget. This was the result
6 of a focus on ensuring customers' funds are
7 always spent prudently.
8
9 You may also find some comfort from the
10 National Performance Report published by
11 the Bureau of Meteorology, which compared
12 all water utilities in Australia. It found
13 that Hunter Water had for the past year
14 both the lowest average water prices in
15 Australia as well as the lowest average
16 operating cost per property. It is a title
17 that Hunter Water is expected to retain
18 throughout this year.
19
20 Again, that response, Geoff, was sent to you on
21 3 August this year at 11.46. I will provide you with a
22 copy of that later on.
23
24 THE CHAIRMAN: Thank you very much, Jeremy. Geoff?
25
26 MR EATHER: Thanks very much for that, Jeremy.
27 I appreciate what you're saying. I certainly appreciate
28 the corporate issues that you guys have to deal with. As
29 I said, I am a resident of a 600 square metre block at
30 Metford. I am not aware of any competition for water that
31 is available to me.
32
33 Maybe I need more information, maybe I need more
34 advertising, but I'm certainly not part of any development
35 that has been provided by Flow, or anything like that,
36 I understand that side of it. What I am saying is that the
37 \$86,000 - if that's the number - has been paid for by what
38 I would consider a number of captive customers of yours and
39 I call them that and I recognise you may be moving in other
40 directions now. It is not something I go around
41 investigating. It is simply observing what I'd call prime
42 time television advertising, which is obviously expensive,
43 and your water users' funds are being used to fund that.
44
45 Anyway, thanks for your response and I will talk to
46 you after and confirm my email address with you because
47 I would like to get that. I definitely didn't get it.

1
2 MR BATH: Yes, thank you.
3
4 THE CHAIRMAN: Thank you, Geoff. Thank you very much.
5 Next, Ben?
6
7 MR WILCOX: I have two questions. The first question is
8 could you define for me the mandatory standards? The draft
9 that you showed there cost you \$60 million a year. That
10 seems very high to comply to a standard.
11
12 MS CUSHING: Yes. The category of mandatory standards
13 contains a range of different standards. They could be
14 safety requirements whereby we are required to actually
15 upgrade some of our facilities to ensure the safety of our
16 employees and contractors that work on those sites. In
17 addition to that, the bulk of the mandatory requirements
18 actually relate to wastewater expenditure and are actually
19 items imposed on us by the EPA.
20
21 A perfect example of one of the projects that is there
22 in mandatory standards that is actually underway at this
23 particular point in time has been done in conjunction with
24 the EPA and also the Department of Health, which is the
25 upgrading of the UV disinfection at Burwood Beach
26 wastewater treatment plant, our largest wastewater
27 treatment plant, and having UV disinfection installed at
28 that particular plant. The bulk of those are actually
29 imposed on us by other state agencies and are required by
30 legislation. They are, to our understanding, absolutely
31 forced.
32
33 THE CHAIRMAN: Thank you. Ben?
34
35 MR WILCOX: The second part is in regards to the
36 environment improvement charge. I appreciate what you
37 said, it is on there and it is open to everybody else, but
38 how long is that charge going to be on there? I know
39 within the Cessnock City Council area there are properties
40 there, such as Neath, Kearsley and Kitchener, that were on
41 septic systems, I believe some or most are now on sewer
42 systems, so we've paid for that, so that translates to
43 about 253,000 homes multiplied by \$12.50, that's
44 \$31 million, so you're getting that money every year. How
45 long will that continue for? When does that drop off, if
46 ever?
47

1 MS CUSHING: At the moment that is definitely a fixed term
2 charge. The proposal we have in our price submission at
3 the moment is that that charge would sunset at the end of
4 June 2022, so that was an extension. It was originally due
5 to expire at 30 June 2019 but we have sought an extension
6 of that to cover the sewerage of some backlog sewers in the
7 Wyee area.
8
9 THE CHAIRMAN: Thank you for that answer, Fiona, that's
10 good. Thank you. Are there any other questions or
11 comments? Rick.
12
13 MR BANYARD: It seems to me that in the Hunter Water
14 submission there is no capital expenditure being put aside
15 for meters.
16
17 THE CHAIRMAN: Maybe we can just get Hunter to respond
18 to that.
19
20 MS CUSHING: There absolutely is funding within the
21 submission for meters. We actually have an annual meter
22 replacement program, so it is one of the projects that is
23 there every year. We are going through, on an annual
24 basis, replacing meters as they reach the end of their
25 useful life so that we can ensure the accuracy of our
26 billing to customers and if we have some issues with a
27 particular meter as well then we will expedite the
28 replacement of that through that process.
29
30 MR BANYARD: I don't consider that to be capital
31 expenditure and that wasn't what I was referring to. That
32 is a maintenance expenditure to keep equipment that is in
33 operation up to a standard. My point was going to be that
34 less than 50 per cent of the occupiers of premises have
35 water meters attached to their premises. Virtually nobody
36 has sewer meters, virtually nobody has stormwater meters
37 and very few have recycled water meters. The Property
38 Owners Association believes it is really important that
39 water meters are installed in properties so that a true and
40 accurate account can be submitted to the property owner,
41 the customer contract holder, for the water, sewer,
42 stormwater and recycled water that they're using.
43
44 The question from me is will all new connections have
45 water meters, and that's where you have a subdivision, or
46 something else, you go and put the latest in and the latest
47 must include four meters, if relevant, and when will the

1 retrofit program commence?
2
3 I note that if 5,000 sets of meters were fitted each
4 week, it would only take five years, or to the end of the
5 next pricing path, to have everybody on a meter and then we
6 can get some fair dinkum bills. Thank you.
7
8 THE CHAIRMAN: Thank you, Rick. Hunter Water, would
9 you like to comment with respect to expanding the meter
10 coverage?
11
12 MS CUSHING: Yes. At this point we have no plans for
13 doing that. One of the main reasons for that is that in any
14 of the preliminary analyses we've undertaken regarding the
15 cost burden on the community of actually going through a
16 wholesale replacement or actual install of meters where
17 they don't currently exist, for example, for sewage
18 discharge and stormwater, there is no benefit. We believe
19 the cost does not in any way get covered by the potential
20 benefit to the community for that. The bill increase that
21 would therefore be imposed across the broader customer base
22 is not something that we propose to put forward at this
23 point.
24
25 THE CHAIRMAN: What about for water meters?
26
27 MS CUSHING: For water meters, as I have stated, we have
28 a very, very small handful, I think it's less than
29 10 unmetered properties.
30
31 THE CHAIRMAN: Less than 10 properties or 10 per cent?
32
33 MS CUSHING: Ten.
34
35 MR DYCE: Four.
36
37 MS CUSHING: Four, sorry - there we go from up the back.
38 the actual number is four unmetered water properties. As
39 I said, we do go through a capital replacement program
40 which is capital and is not maintenance. We are physically
41 replacing those meters which is a physical asset
42 replacement.
43
44 MR BANYARD: Properties are one thing, households are a
45 totally different kettle of fish. About 50 per cent of
46 households are not currently billed for water. Jeremy is
47 shaking his head but that's about 35 per cent of rental

1 properties, plus all of those properties that are not owned
2 by the person who is living in it, and that includes people
3 like when you have your daughter living in a house and
4 they're occupying that house and you don't have a thing,
5 share houses, boarding houses and a whole lot of other
6 living arrangements.
7
8 The key place to start this program is with all
9 totally new connections and when you're going to have a
10 subdivision or a brand new piece of land put on to the
11 market, one of the costs should be to set up the
12 appropriate metering for everybody in that subdivision in
13 the first place and that should happen. You put brand new
14 meters for water in those places to the property, not to
15 the household.
16
17 Property Owners Association members are being forced
18 to somehow or other come up with schemes of retrofitting
19 meters into units, apartments, flats where there is only
20 one water meter provided for the whole property and it
21 might have 100 units in it, having to come up with methods
22 of actually providing meters to those properties. And then
23 there is a whole lot of legal issues about whether the
24 meter reading in a property like that that's fitted by a
25 landlord has enforceable meter things when it comes to
26 actually charging tenants and other users for water.
27
28 It is a really serious issue and I'm appalled that
29 there is no significant capital expenditure being allocated
30 to at least start the ball rolling.
31
32 THE CHAIRMAN: Thank you, Rick. Would anybody else
33 like to make a comments or ask any questions from the floor?
34 Are there any further comments from around the table? No?
35 Thank you very much.
36
37 Let's move on to the final item on the agenda,
38 which is "Other issues", and Anita, from the secretariat,
39 will introduce this.
40
41 OTHER ISSUES
42
43 MS PAYNE: Good afternoon, everyone. As Peter mentioned
44 at the start of today, our issues paper identified the
45 range of issues which we can't cover in detail this
46 afternoon.
47

1 What we have tried to do in this session is highlight
2 a few issues that we are particularly seeking views on or
3 that we received submissions on to our issues paper. You
4 will see there the last question, "Any other issues?"
5 That's an opportunity for anyone to raise any other issues
6 that I have not covered here or that we have not covered in
7 the previous sessions.
8
9 One of the issues that we raised in the issues paper
10 was that Sydney Water's customer engagement has revealed
11 there is some confusion around the meaning of the fixed
12 service charge. We set out a preliminary position in the
13 issues paper that supported the use of the term
14 "availability charge" and we sought feedback on the most
15 appropriate name for this charge.
16
17 In terms of the responses that we received to the
18 issues paper, Hunter Water supported the refinement of the
19 terminology but noted that "availability charge" had led to
20 some complaints previously. There was a call to adopt
21 consistent terminology across water utilities and
22 preferences were identified for a number of the other
23 options that we identified in the issues paper such
24 as fixed charge, water network charge or distribution
25 charge.
26
27 The next issue that we would seek your views on is the
28 length of the determination period. So this is over what
29 period should prices be set for from 1 July 2016. Hunter
30 Water's proposal was for a four-year determination period
31 to align with Sydney Water. Our position, as set out in
32 the issues paper, was that we generally supported the
33 four-year period and alignment with Sydney Water.
34
35 In terms of the issues that were raised in the
36 submissions, there was support for that approach. However,
37 it was noted that conducting reviews simultaneously - so
38 that's reviews for Hunter Water and Sydney Water at the
39 same time - places burdens on the stakeholders' ability to
40 participate in the number of views.
41
42 Another issue we raised in the issues paper related to
43 some proposals from Sydney Water in terms of the change to
44 the form of regulation. Sydney Water proposed three
45 measures:
46
47 An efficiency benefit sharing scheme, which sought to

1 increase and equalise its incentives for achieving cost
2 savings over the regulatory period;
3 A more expansive use of the cost pass-through
4 mechanisms - something we talked a little bit about this
5 morning - and that would allow it to pass on to customers
6 the cost of uncertain or uncontrollable events
7 during the regulatory period; and
8 A weighted average price cap which would allow
9 flexibility to set prices to individual customers or groups
10 of customers subject to a cap on the weighted average of
11 these charges.
12
13 IPART's position in the issues paper set out that if
14 we decided to adopt these measures for Sydney Water, we
15 would consider whether to apply them to Hunter Water.
16
17 In terms of the responses to the issues paper, some of
18 the issues raised were that Hunter Water stated it would
19 consider Sydney Water's experience before proposing similar
20 measures at the next price review - similar or other
21 measures
22
23 Another submission noted that there should be
24 consistent regulatory arrangements between Hunter Water and
25 Sydney Water. Another submission identified that customer
26 councils or customer forums should be consulted on the
27 efficiency benefit sharing scheme methodology to ensure
28 that customers benefit from this mechanism.
29
30 There was no support in the submissions for a weighted
31 average price cap for residential customers, but some
32 submissions noted that there could be benefit to the
33 non-residential customers.
34
35 As Peter mentioned in his opening remarks this
36 morning, one of the other issues that we are considering in
37 this review is wholesale water and wastewater prices. These
38 issues apply to Sydney Water and Hunter Water and our
39 issues paper set out our preliminary views in both the
40 Sydney Water and the Hunter Water issues paper.
41
42 IPART is having a separate public hearing on this on
43 8 December where we will be considering two key questions
44 that we identified in our issues paper:
45
46 How to calculate wholesale prices; and
47 How to regulate these prices?

1
2 The session on 8 December will cover this issue in
3 detail and provide the opportunity to have some discussion
4 on these issues. However, I just wanted to raise this
5 today so that everyone is aware and if this is an issue
6 about which you would like to participate in a detailed
7 discussion, then I encourage you to attend the public
8 hearing on 8 December.
9
10 In terms of some questions that we can discuss this
11 afternoon and it would be good to get your views on, they
12 are:
13
14 What should the current fixed service charge be
15 called?
16 What should the length of this determination period
17 be?
18 Should any changes to the form of regulation be
19 applied to Hunter Water in this determination as opposed to
20 a later determination?
21 Are there any other issues of comments that you would
22 like to make?
23
24 THE CHAIRMAN: Thank you very much, Anita. Are there
25 any questions or comments from around the table? Leigh?
26
27 MR MARTIN: Yes, very briefly, in terms of the names given
28 to fixed charges, I don't really have a strong view on
29 those; I am more concerned about their size than the title
30 that is applied to them.
31
32 Also, on the issue of a determination period, again no
33 strong views, but we do note that four-year determinations
34 seem to have worked fairly well so we are comfortable with
35 maintaining those, but we would ask the tribunal to remain
36 mindful to the fact that having determinations running
37 together does place some constraints on our ability to
38 participate.
39
40 I won't mention much about wholesale prices because we
41 will have a separate process for dealing with that. I will
42 just flag that we think there should be a distinction drawn
43 between operators who simply onsell potable water and those
44 who may use potable water in addition to water developed
45 from alternative supplies. That is something I look
46 forward to covering in a bit more detail at the appropriate
47 time.

1
2 THE CHAIRMAN: Okay, thank you very much, Leigh. Kristal?
3
4 MS BURRY: We are fine with changing the name for the
5 fixed charge. However, we didn't think that the one
6 proposed by IPART added any extra clarity to it, but we
7 support the three of the other suggestions.
8
9 We are fine with the four-year determination period.
10 As Leigh said, it has worked well and putting it in line
11 with Sydney makes sense to us.
12
13 We made comments about some of the regulatory changes
14 as part of our submission on Sydney Water, but in general
15 we didn't support the weighted average price cap given that
16 it is no longer in use in the electricity industry in New
17 South Wales. They had issues with it there, so we didn't
18 think it would be appropriate to apply in this case.
19
20 We were fine with an efficiency benefit sharing
21 scheme, but stated that we would like customer preferences
22 to be brought into that process. Then the other one was
23 that we did not want to generalise the pass-through cost
24 mechanism. We would much prefer it to be a very specific
25 targeted approach.
26
27 THE CHAIRMAN: Thank you, Kristal. Cathy?
28
29 MS COLE: We would consider that most of those issues are
30 probably matters more suited for IPART's consideration.
31 The main point that we will be discussing on 8 December,
32 which is the wholesale pricing question, is a matter that
33 we look forward to talking about with you further.
34
35 THE CHAIRMAN: Thank you. Just on the weighted average
36 price cap, the electricity has been deregulated now at the
37 retail level and up until it was deregulated, we were
38 having a weighted average price cap. It was in some of
39 the public transport areas, for example, trains - we were
40 asked for recommendations for trains - and it is also in
41 gas. It is actually mainly water where the weighted
42 average price cap has not been applied in IPART's
43 bailiwick.
44
45 MS BURRY: Obviously the electricity industry has changed
46 a lot in the last few years, but we do note that there were
47 some issues with gaming of the system. So, yes, that's

1 what I wanted to say.

2
3 THE CHAIRMAN: Thank you, Kristal. Are there any
4 questions or comments from the floor? Yes, Rick?

5
6 MR BANYARD: I want to really tackle the issue of customer
7 contracts. I have been told that customer contracts are
8 not part of this hearing. However, as I have pointed out
9 in previous comments I have made today, about 50 per cent
10 of households and occupiers of premises are not covered by
11 the bills directly. Bills have to be duplicated, split and
12 forwarded on to other parties - that is greatly inefficient
13 - and surely customers should have meters. Those are the
14 three things I have mentioned before.

15
16 One of the biggest problems about the whole of this
17 water issue is that you are trying to bill people for
18 various things without actually having a customer contract.
19 The customer contract specifically excludes everybody from
20 holding a customer contract unless you actually own a piece
21 of land and that is basically the definition. Hunter Water
22 misuses the term. Even today in their presentation, they
23 have talked about the survey results and what customers
24 told them. The survey wasn't about customers; that sort of
25 survey was about water users and they took those results.

26
27 IPART themselves misused the term. In their issues
28 paper they have put out, most of the time the word
29 "customer" is wrongly used and it does not apply to a
30 property owner. The term is really misused. Around this
31 room today the term "customer" has been used repeatedly in
32 the wrong context. I'd say as many as eight out of ten
33 times, it has been used wrongly.

34
35 When we are talking about water, there is a specific
36 definition of a customer and a customer contract relates a
37 person who actually owns property. The ability to bill and
38 to hold a contract should be applied to all tenants and all
39 water users, not just the property owners.

40
41 One thing that really concerned me is that, in raising
42 this issue with IPART, I was informed that the opportunity
43 to consider the issue of customer contracts will not be
44 available until next year. Next year, had Hunter Water not
45 applied to bring forward this determination a year earlier,
46 we would have had an opportunity to discuss customer
47 contracts and redefine the customer contract before the

1 determination was made. However, we will now be in a
2 position that the determination will be made and there will
3 be no opportunity for another four years to address the
4 issue of customer contract which is part of the
5 determination. I just think that is wrong.

6
7 I raised the issue with IPART back in March this year
8 and asked the question specifically: When will we be going
9 to get the opportunity to discuss customer contracts that
10 supply Hunter Water and the Central Coast - namely, Gosford
11 and Wyong? I think there were some deliberations about
12 customer contracts in Sydney Water's case at that point in
13 time.

14
15 THE CHAIRMAN: I am advised, Rick, that customer contracts
16 for Hunter Water will be covered in the review of their
17 operating licence.

18
19 MR BANYARD: Correct.

20
21 THE CHAIRMAN: Which is next year.

22
23 MR BANYARD: And that is what concerns me. I believe we
24 should determine the customer contract before this
25 determination is completed. Had Hunter Water not been
26 allowed to bring their case forward, we would have that
27 determined.

28
29 I think it would be remiss of IPART not to seriously
30 address the issue of customer contracts because the way it
31 is currently working is a great disadvantage to virtually
32 everybody. It doesn't matter if you're a unit owner, in a
33 retirement home, running a shop in a shopping complex or a
34 landlord with one house, the whole system is not working
35 because we don't use the correct definition of "customer
36 contract" and the people around the table who are talking
37 about it are not using the definition as it is written
38 down.

39
40 This is a serious issue. I have brought this to the
41 attention of IPART in a number of hearings in the past and
42 it keeps getting pushed off the agenda. It is now time to
43 address it, thank you.

44
45 THE CHAIRMAN: Thank you, and it will be addressed in
46 roughly March next year when we look at the Hunter Water's
47 operating licence. Is it March?

1
2 MR EDGERTON: We will be commencing our review towards
3 the middle of next year.

4
5 THE CHAIRMAN: So towards the middle of next year, and
6 there will be a chance for public stakeholder input in the
7 public process for that review, but thank you very much,
8 Rick.

9
10 Is there anybody else who has questions or comments
11 from the floor? Yes, Geoff?

12
13 MR EATHER: With your indulgence, I have a question,
14 having, as I said, come along as an amateur, but I have
15 enjoyed the occasion. I would like to go to what Peter was
16 talking about earlier today which was about future-proofing
17 or drought-proofing the Hunter.

18
19 First of all, I was extremely proud of the Hunter and
20 the way we got through the situation when Sydney was
21 panicking with Warragamba Dam and they built the desal
22 plant. With the issues that Gosford and Wyong had there,
23 I thought it was fantastic that we built a pipeline to join
24 the Hunter and Gosford-Wyong. Looking after your
25 neighbours - fantastic.

26
27 Again I am a little bit naive here. The question I'm
28 asking is: I know the storages we have. With the water
29 restrictions we have at the moment, my personal belief is
30 it is a political thing that brings us in line with Sydney,
31 and that's okay. But one of the things I am concerned
32 about is I don't know what the capacity of the Tomago
33 Sandbeds is, and I don't know that anybody knows what the
34 capacity of the Tomago Sandbeds is. We don't really know
35 what it is. I think I read this, but I'm not sure whether
36 it's the Pacific Ocean that keeps feeding through the dunes
37 to them, but that is quite likely the main reason.

38
39 My main question is: from the financial risk point of
40 view are the Tomago Sandbeds under any risks from the
41 events that are happening at Williamstown? It's not a great
42 distance from Williamstown to the sand-beds. Do you have a
43 provision in mind for what might happen there? Thank you.

44
45 THE CHAIRMAN: Thank you, Geoff. Jeremy?

46
47 MR BATH: In terms of the Tomago Sandbeds, we are well

1 aware that there is what is known as a PFOS PFOA
2 contamination which has come from the RAAF base who are,
3 we would like to think, custodians of the sandbeds. Clearly
4 over a long period of time, they have not acted with the
5 due care and consideration that they should have.

6
7 The Tomago Sandbeds, from the Hunter Water
8 perspective, are essentially an emergency supply of water.
9 They are used infrequently. My expectation is the next
10 time they will be used given the current high water storage
11 levels that we enjoy is June of 2016. They will be used
12 for a period of a month. That will be essentially as a
13 maintenance measure so we can ascertain which pump
14 stations are working and which are not.

15
16 There are two pump stations which are currently
17 embargoed. From memory, I think they are pump stations 7
18 and 9. They have been embargoed from any further use
19 without the express permission of NSW Health on the basis
20 that they are considered at high risk of potential
21 contamination of PFOS and PFOA. They will continue to
22 remain embargoed for the foreseeable future.

23
24 In terms of the other pump stations, just to briefly
25 run you through the process of how we actually operate
26 those, when, as infrequently as it is, they are used we
27 sample at the source. So if next year we were using, for
28 example, pump station number 5, we would sample at source.

29
30 That water is then transported to a raw water tank at
31 the Grahamstown water treatment plant. It is tested a
32 second time for a range of contaminants, two of which are
33 PFOS and PFOA. Essentially, there is a double-check that
34 occurs before any water is drawn from the Tomago Sandbeds
35 is introduced, or what we called shandied. It is shandied
36 with the potable water from the rest of our water network,
37 which would typically be Grahamstown Dam. I can reassure
38 you that from a health perspective, from a safety
39 perspective, there is absolutely no risk of contamination
40 to the drinking water's network.

41
42 In terms of the ongoing or the long-term implications
43 of the contamination, unfortunately, we are in a bit of a
44 wait-and-see position at the moment. The Department of
45 Defence currently have employed a contractor, AECOM, to do
46 some remediation research, which is essentially to decide,
47 frankly, whether the Tomago Sandbeds can be free of PFOS or

1 PFOA or whether to just let that run through the system,
2 which may take many decades, maybe 100 years.
3
4 Whether we have lost those two pump stations that are
5 embargoed at the moment because they are in a high-risk
6 area of the Tomago Sandbeds, we can't say, but we are not
7 using them because they are high risk. We have to simply
8 wait for the Department of Defence to complete the research
9 that they are undertaking to understand whether there is a
10 way which, I guess, isn't cost prohibitive to the
11 Commonwealth to extract or to remediate the chemicals from
12 the sand-beds.

13
14 If that can be done, fantastic, then we will be able
15 to regain access to those pump stations. If it can't, then
16 more detailed modelling will have to be done to better
17 understand what the risk is to those two pump stations that
18 are currently embargoed.

19
20 THE CHAIRMAN: Thank you, Jeremy. Geoff?

21
22 MR EATHER: Thank you for the explanation, Jeremy. Number
23 one, are you making any financial provision for the future?
24 Now, the reason I am pressing this a little bit, I suppose,
25 is I heard the desal plant is being planned and talked
26 about in terms of 18 months - it will take 18 months to get
27 that up, whatever costs that are involved in doing that.
28 Would not the Tomago Sandbeds have been a perfect back-up
29 facility for us, which I think they have been for many
30 years, without even considering designing and building a
31 desal plant? I know you don't want to do it, I don't want
32 to do it, but have we lost that insurance and is there the
33 potential that the sandbeds will be gone so we have to make
34 provisions to build a desal plant?

35
36 MR BATH: No, Geoff, we have not lost that supply of
37 water. There are two pump stations - stations 7 and 9 -
38 that are currently embargoed. They may not always be
39 embargoed, but in the worst case scenario, if that embargo
40 remains in place for the foreseeable future, those two pump
41 stations equate to or amount to about 2 per cent of our
42 overall yield. So only 2 per cent of the water that's
43 available to Hunter Water comes from those two pump
44 stations. While it is not insignificant, it is only 2 per
45 cent.

46
47 Regardless of whether we have the use of those two

1 pump stations in the Tomago Sandbeds we will be proceeding
2 with temporary desalination when our water storage levels
3 hit 35 per cent. So the recommendation to proceed with
4 temporary desalination when levels are at 35 per cent was
5 an outcome of the Lower Hunter Water Plan. That was
6 announced in - Cathy, correct me if I am wrong - April of
7 2014.

8
9 MS COLE: That's right, Jeremy.

10
11 MR BATH: At that stage we obviously had no knowledge or
12 no expectation that we were potentially going to lose for
13 the foreseeable future two of our pump stations.

14
15 So the two should not be related and you certainly
16 would be mistaken to believe that the consideration of
17 temporary desalination - and it is temporary - is in any
18 way connected with the temporary loss of those two pump
19 stations.

20
21 MR EATHER: I am sorry to persist. The issue that I am
22 driving at is not so much the contamination. It is about
23 what is the capacity of the Tomago Sandbeds as compared to
24 having to build a desal plant? You say you only lose 2 per
25 cent, because your input into the system is from the
26 sandbeds. Do we know what the capacity is? As I said,
27 I don't know, I'm not an expert, but why can't the sandbeds
28 be considered our insurance policy rather than designing
29 and building a desal plant?

30
31 THE CHAIRMAN: Just one last go at it this from Hunter
32 Water.

33
34 MR BATH: I am advised the capacity of the Tomago
35 Sandbeds is 60,000 megalitres. I reiterate to you that the
36 Tomago Sandbeds will continue to be an emergency source of
37 water should we require it. There are a number of reasons
38 why we may require the Tomago Sandbeds and there are a
39 number of reasons why we have in the past. It may have
40 nothing to do with dam storage levels. It may be a
41 significant outbreak of blue green algae, for example.

42
43 The Tomago Sandbeds will continue to remain a viable and
44 much loved, much appreciated emergency supply of water
45 for Hunter Water for years that will outlive all of us and
46 outlive of our grandchildren.

1 In terms of temporary desalination, as was indicated
2 today, we are probably about 18 months away from actually
3 making a decision on the appropriate model. We will be
4 looking at a variety of different sizes when it comes to
5 temporary desalination. I can't tell you off the top of my
6 head what those sizes are today, but I remember there were
7 three different capacities that we were looking at in terms
8 of temporary desalination.
9
10 Now obviously, if we are to lose those two pumps
11 stations within the Tomago Sandbeds indefinitely, that may
12 influence the necessity of the size of the temporary
13 desalination model that we will ultimately go with, but
14 I can assure you that regardless of what we have come
15 to know and what we will learn probably over the next
16 12 months in regard to the Tomago Sandbeds, we were always
17 going to go down the path of temporary desalination once
18 dam storage levels hit 35 per cent.
19
20 THE CHAIRMAN: Thank you, Jeremy. Cathy, would you
21 like to say anything on this?
22
23 MS COLE: I think Jeremy has covered it. The main thing
24 is that, yes, the Tomago supply remains an integral part of
25 the whole water supply system and the planning for
26 temporary desal is only as a contingency measure in a very
27 extreme drought. It would be very, very rare to ever hit
28 the 35 per cent, so it is a contingency measure to provide
29 an additional source of water that doesn't depend on
30 rainfall. If there were some very, very small reduction in
31 what you could get out of Tomago, that would just mean you
32 would hit that 35 per cent fractionally earlier.
33
34 MR BATH: Yes, that's correct.
35
36 MS COLE: The measures you would put in place would still
37 rely on Tomago as a key part of the supply system - so the
38 measures you would put in place remain the same. The
39 temporary desalination plant is really only a contingency
40 measure. It is not replacing a fundamental part of the
41 base supply system.
42
43 MR BATH: If I could add to what Cathy has said, the two
44 embargoed pump stations in the Tomago Sandbeds only
45 account for 10 per cent of the overall yield just within the
46 Tomago Sandbeds, so we are still able to retain the vast
47 majority of the Tomago Sandbeds.

1
2 You would be mistaken to think that we have lost the
3 Tomago Sandbeds or that we have even lost a substantial
4 component of the water that is available to us from the
5 Tomago Sandbeds. I don't want to lose any of it, but we
6 have not lost a substantial amount. I'll let you have the
7 final word.
8
9 MR EATHER: Just to finish off, my question is not about
10 the Tomago Sandbeds so much; it relates to Hunter Water's
11 financial provision to do something else if the sandbeds
12 are completely contaminated. It was a financial risk
13 management question.
14
15 MR BATH: The Tomago Sandbeds are not completely
16 contaminated.
17
18 MR EATHER: Okay, I understand that and --
19
20 MR BATH: We have been doing extensive tests since 2012,
21 so they are not contaminated.
22
23 THE CHAIRMAN: Thank you for that. I think we all know
24 much more about the Tomago Sandbeds than we would have.
25 Thank you very much. It was a very interesting exchange.
26
27 Matt, would you like to ask a question?
28
29 MR EDGERTON: Yes, thank you. This question is directed
30 to Hunter Water. As Anita mentioned in her presentation,
31 Sydney Water has proposed an efficiency benefit sharing
32 scheme and also a weighted average price cap.
33
34 In IPART's issue paper for the Sydney Water price
35 review, we flagged that we are looking at the option of
36 applying a weighted average price cap to a large number of
37 residential customers. Could you tell us a little bit more
38 about what your proposal is in relation to these two
39 schemes for the upcoming Hunter Water price review. For
40 example, if we did decide to adopt them for Sydney Water,
41 should they also be adopted for Hunter Water?
42
43 MR SHIELDS: We have been following the discussion on
44 these two proposals through Sydney Water's pricing
45 submission and your issues paper and Sydney Water's
46 response to your issues paper.
47

1 We are not proposing the introduction of either scheme
2 for our next price determination. We have flagged in our
3 issues paper response that we will look on with interest at
4 what the Sydney Water experience will be should they
5 implement either measure over the next four years.
6 Bringing forward our price submission by a year cut down
7 the time to develop any like proposal. Even so, we think
8 we can benefit from learning from Sydney Water's experience
9 in implementing and improving the mechanisms through time
10 and I think we would be better placed at the start of the
11 following price period to consider those mechanisms
12 possibly tailored to regional circumstances at a later
13 time.

14
15 It is probably fair to say that we can see greater
16 merit in a weighted average price cap approach, whereas we
17 can see a fair bit of administrative burden for the scale
18 of the organisation in implementing an efficiency benefit
19 sharing scheme.

20
21 THE CHAIRMAN: Thank you. Is there anything else? Are
22 there any other questions or comments? This is really the
23 last opportunity as we go around. No? All right.

24
25 CLOSING REMARKS

26
27 THE CHAIRMAN: Thank you very much. I would like to
28 thank you all for your participation in today's proceedings. It
29 has been a very good session and I would like to thank
30 Hunter Water and all the stakeholders for a very
31 constructive discussion and an interesting one.

32
33 A transcript of today's proceedings will be available
34 on our website in a few days time. We will consider all
35 that has been said today when we make our decisions on
36 Hunter Water's prices to apply from 1 July 2016.

37
38 As previously mentioned, we plan to release a draft
39 report for public comment in March 2016. People will then
40 have about four weeks to make further written submissions
41 for consideration by IPART before we make our final
42 decision on Hunter Water's prices in June 2016 to apply, as
43 I said, from 1 July 2016. Thank you all and have a great
44 afternoon.

45
46 AT 2.02PM THE TRIBUNAL ADJOURNED ACCORDINGLY
47