

# Attachment H: Revenue requirements by product

Revenue requirements are calculated by product - water, wastewater and stormwater. This ensures that costs related to each product are only recovered from those customers who receive them and there is no cross-subsidy of revenue between products.

Chapters 4 and 5 provide detail in regard to the capital and operating costs for each product. This includes costs related to corporate activities. To calculate revenue requirements, an activity-based costing method allocates corporate operating costs across the water, wastewater and stormwater products. For capital costs, the return on assets and depreciation allowance for the corporate RAB is allocated across the other products in proportion to average RAB values.

Proposed target revenues and underlying building block costs are shown for water (Table 1 and Table 2), wastewater (Table 3 and Table 4) and stormwater (Table 5 and Table 6).

The notional revenue requirement is the sum of building block costs. It is an unsmoothed revenue allowance. Proposed target revenues have had a revenue neutral smoothing technique applied. They recover the same revenue over the period in present value terms as the calculated notional revenue requirements.

Target revenues include:

- Sales revenue: revenue received from water, wastewater and stormwater service and usage prices.
- Other regulated revenue: revenue from miscellaneous and trade waste charges.
- Non-regulated profit: profit received from non-regulatory activities. The value has been apportioned to represent only the value that is shared with customers.

The 2024-25 financial year does not have a calculated revenue requirement. Prices for this year have remained constant at the 2023-24 level.

## Water

**Table 1 Proposed target revenues, water, (\$2024-25, \$millions)**

| Water                        | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 5-year NPV |
|------------------------------|---------|---------|---------|---------|---------|------------|
| Sales revenue                | 204.4   | 227.6   | 251.4   | 275.2   | 298.4   | 1,121.7    |
| Other regulated revenue      | 1.4     | 1.4     | 1.4     | 1.4     | 1.4     | 6.3        |
| Non-regulated profit         | 1.8     | 1.8     | 1.8     | 1.8     | 1.9     | 8.1        |
| Target revenue               | 207.6   | 230.7   | 254.6   | 278.4   | 301.6   | 1,136.0    |
| Notional revenue requirement | 229.6   | 244.5   | 257.5   | 265.7   | 269.8   | 1,136.0    |

Source: Hunter Water analysis and Hunter Water AIR/SIR, 'Revenue' – rows 31,39,57,67,123, 126 and 127 and Hunter Water AIR/SIR, 'SIR Non-regulatory' - row 43.

**Table 2 Proposed revenue requirements, water (\$2024-25, \$millions)**

| Water                        | IPART allowance 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 |
|------------------------------|-------------------------|---------|---------|---------|---------|---------|---------|
| Operating costs              | 85.1                    |         | 94.3    | 94.8    | 96.7    | 98.0    | 97.2    |
| Return on assets             | 59.0                    |         | 73.2    | 81.9    | 87.3    | 90.2    | 91.7    |
| Regulatory depreciation      | 45.8                    |         | 50.0    | 55.9    | 60.1    | 63.3    | 65.7    |
| Tax allowance                | 10.0                    |         | 9.7     | 10.4    | 11.2    | 11.8    | 12.4    |
| Working capital              | 1.6                     |         | 1.1     | 1.6     | 2.3     | 2.5     | 2.8     |
| Less: Revenue adjustments    | -                       |         | 1.3     | -       | -       | -       | -       |
| Notional revenue requirement | 201.5                   |         | 229.6   | 244.5   | 257.5   | 265.7   | 269.8   |

Source: Hunter Water analysis

Note: For completeness, 2023-24 IPART allowance includes the discretionary component.

## Wastewater

**Table 3 Proposed target revenues, wastewater (\$2024-25, \$millions)**

| Wastewater                   | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 5-year NPV |
|------------------------------|---------|---------|---------|---------|---------|------------|
| Sales revenue                | 221.6   | 227.7   | 233.8   | 240.2   | 246.8   | 1,050.1    |
| Other regulated revenue      | 5.5     | 5.6     | 5.7     | 5.8     | 5.9     | 25.7       |
| Non-regulated profit         | 0.3     | 0.3     | 0.3     | 0.2     | 0.2     | 1.1        |
| Target revenue               | 227.4   | 233.6   | 239.8   | 246.2   | 252.9   | 1,077.0    |
| Notional revenue requirement | 226.8   | 236.7   | 241.1   | 245.0   | 249.9   | 1,077.0    |

Source: Hunter Water analysis and Hunter Water AIR/SIR, 'Revenue' – rows 44,73,129 and 131 and Hunter Water AIR/SIR, 'SIR Non-regulatory' - row 44.

**Table 4 Proposed revenue requirements, wastewater (\$2024-25, \$millions)**

| Wastewater                   | IPART allowance 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 |
|------------------------------|-------------------------|---------|---------|---------|---------|---------|---------|
| Operating costs              | 102.6                   |         | 95.7    | 96.4    | 97.3    | 96.8    | 96.7    |
| Return on assets             | 72.2                    |         | 77.3    | 78.0    | 78.8    | 80.2    | 81.9    |
| Regulatory depreciation      | 53.4                    |         | 49.8    | 51.9    | 54.2    | 56.9    | 59.9    |
| Tax allowance                | 7.4                     |         | 9.3     | 10.1    | 10.5    | 10.9    | 11.2    |
| Working capital              | 0.5                     |         | 0.2     | 0.3     | 0.2     | 0.1     | 0.1     |
| Less: Revenue adjustments    | -                       |         | (5.4)   | -       | -       | -       | -       |
| Notional revenue requirement | 236.2                   |         | 226.8   | 236.7   | 241.1   | 245.0   | 249.9   |

Source: Hunter Water analysis

## Stormwater

**Table 5 Proposed target revenues, stormwater (\$2024-25, \$millions)**

| Stormwater                   | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 5-year NPV |
|------------------------------|---------|---------|---------|---------|---------|------------|
| Sales revenue                | 7.4     | 8.5     | 9.5     | 10.6    | 11.7    | 42.5       |
| Other regulated revenue      | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0        |
| Non-regulated profit         | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     | 0.0        |
| Target revenue               | 7.4     | 8.5     | 9.5     | 10.6    | 11.7    | 42.5       |
| Notional revenue requirement | 8.7     | 9.3     | 9.5     | 9.8     | 10.1    | 42.5       |

Source: Hunter Water analysis and Hunter Water AIR/SIR, 'Revenue' – rows 48,77,134 and 135 and Hunter Water AIR/SIR, 'SIR Non-regulatory' - row 45.

**Table 6 Proposed revenue requirements, stormwater (\$2024-25, \$millions)**

| Stormwater                   | IPART allowance 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 |
|------------------------------|-------------------------|---------|---------|---------|---------|---------|---------|
| Operating costs              | 2.2                     |         | 2.9     | 2.9     | 3.0     | 3.0     | 3.0     |
| Return on assets             | 2.7                     |         | 3.4     | 3.6     | 3.8     | 4.0     | 4.1     |
| Regulatory depreciation      | 2.3                     |         | 2.1     | 2.3     | 2.4     | 2.5     | 2.6     |
| Tax allowance                | 0.4                     |         | 0.4     | 0.4     | 0.4     | 0.4     | 0.4     |
| Working capital              | (0.0)                   |         | (0.0)   | (0.0)   | (0.0)   | (0.0)   | (0.0)   |
| Less: Revenue adjustments    | -                       |         | (0.2)   | -       | -       | -       | -       |
| Notional revenue requirement | 7.5                     |         | 8.7     | 9.3     | 9.5     | 9.8     | 10.1    |

Source: Hunter Water analysis