Attachment K - Discretionary expenditure in the current pricing period

Overview

As part of IPART's 2020 Determination, Hunter Water's willingness to pay study was considered sufficient to justify expenditure for two discretionary expenditure programs. The willingness to pay survey found that:

- 77 per cent of residential respondents were willing to pay more for Hunter Water to increase the amount of wastewater turned into recycled water for irrigation of public spaces, and
- 74 per cent of residential respondents were willing to pay more for investment in embankment work and landscaping of open stormwater channels.

Hunter Water was allocated $6.0 million ($2019-20) to deliver at least 20ML of additional wastewater recycling for irrigation per year, and an additional $11.3 million ($2019-20) to naturalise at least 1 km of stormwater channels over the determination period. This expenditure is to be recovered through residential customers.

During the current pricing period, we:

- exceeded the target of 1km of stormwater amenity by an additional 100m while slightly underspending the allocated expenditure.
- are only on track to deliver 9ML per annum of the 20ML per annum of recycled water for irrigation target, due to material cost escalations in the projects.

Stormwater Amenity

Overview

Hunter Water has improved the amenity of sections of our open stormwater channels to enrich the natural environment, create revitalised spaces for the community to enjoy, and reconnect the community to its local waterways.

Urban waterways are often concrete stormwater channels with limited coherence to their surrounding environments. These highly modified channels offer limited biodiversity benefits and are often not very nice to look at or be around. In 2018, this description applied to about 90 per cent (45 km) of Hunter Water's open channels.

Over the last 4 years, Hunter Water has carried out works on the channel banks and landscaping along five sections of our urban waterways at:

- Winding Creek in Wilkinson Park, Cardiff
- Throsby Creek in Litchfield Park, Mayfield
- Dark Creek in Heaton Park, Jesmond
- Bellbird Creek in Manning Park, Cessnock
- Cottage Creek, Newcastle West

Murals have also been painted along fences adjacent to the stormwater channels in both Cardiff and Mayfield.

Customer and community engagement

Educational signage has been installed as part of the work at Litchfield Park, Mayfield

We replaced 300m of concrete channel wall with sandstone rocks along the embankment to create a more natural environment.

During the planning stages, Hunter Water actively engaged with councils to ensure the projects were prioritised and aligned with local priorities. Community members in the immediate vicinity of each project were consulted prior to, during and after construction to minimise disruption and measure community satisfaction with the project. Artwork for the murals was developed by local students and artists, including aboriginal members of the community.

Outputs and expenditure

Table 1: Stormwater amenity discretionary expenditure - expenditure overview 2020-25 ($millions)

	2020-21	2021-22	2022-23	2023-24	2024-25[1] ($2024-25)	Total 2020-25 ($2024-25)
Expenditure Allowance (nominal)	2.94	3.12	3.30	3.43	N/A	**14.13**
Expenditure (nominal)	0.22	2.14	1.90	7.29	0.20	**12.41**
Difference	2.72	0.98	1.40	(3.86)	(0.20)	**1.71**
Difference %	(93%)	(31%)	(42%)	112%	N/A	**(12.1%)**

1. 2024-25 values represent a forecast of expected expenditure by the end of the period.

Table 2 outlines that we have improved 1.1km of our stormwater channels. This includes 530m of naturalised banks, 390m of a waterside shared pathway and landscaping, and 190m of local artwork murals alongside the channels at three sites.

Table 2: Stormwater amenity outcome measures 2020-25

Project Description	Measure	Target	Actual
A discretionary project to improve the amenity of stormwater channels	The length of stormwater assets that have undergone 'naturalisation; by the WTP of customers	Minimum 1km of improved amenity of stormwater assets	We have improved 1.1km of our stormwater channels.

Communications with customers

To ensure we are adequately reporting our progress on stormwater amenity to our customers, we provide online and public information through the following:

- All information on our works can be found on the Hunter Water Website
- Updates on our stormwater amenity program were featured in Hunter Water's community newsletter 'The Stream' as well as our customer newsletter 'Making Waves' which is included when customers receive their water bill.
- Following the issue of a media release in September 2023, coverage was generated from local media on Hunter Water's stormwater amenity program. Coverage included; The Newcastle Herald, Cessnock Advertiser, NEWFM, ABC Radio Newcastle.
- Hunter Water's stormwater amenity program was also promoted broadly across Hunter Water's social media channels – including videos documenting the upgrades at each location.

Recycled Water for Community Greening

Overview

Recycled water is a sustainable water supply that can provide for community needs during drought. Maintaining community green spaces during drought contributes to liveability outcomes including supporting health and wellbeing benefits. Supplying recycled water that offsets drinking water consumption improves the resilience of our region's water supplies.

Our community previously indicated a preference for increasing the amount of water that is recycled, and more specifically indicated support through the willingness to pay for Hunter Water to invest in recycled water for community greening.

A recycled water scheme that provides irrigation water for playing fields at Edgeworth and Cameron Park was identified as the most cost-effective way to deliver a minimum of 20ML per annum.

Project investigation area

Revised investment program

As we went to market, it was clear that escalating costs would not allow us to deliver the full customer outcome of 20ML per year without exceeding the IPART expenditure allowance for recycled water. We undertook a business case review due to the higher cost to reevaluate the future of the program.

The following three options were considered in this review:

1 Abandoning the investment

2 Increasing the investment above the agreed funding envelope to ensure the community's target of 20ML per year was met.

3 Delivering as much recycled water as possible within the agreed funding envelope (selected option).

We determined that option 3 was the most suitable approach, as it balanced delivering the community's desired outcome with consideration given to cost, relative priority, and affordability pressures.

This approach resulted in delivering 9ML per year from the scheme (less than the agreed target), at a cost of slightly above the agreed funding envelope, with the potential for the last stage of the project to be delivered later. The first stage of the project is currently in the construction phase with commissioning by the end of 2024-25.

While we are not meeting the target of 20ML per annum, the works being undertaken at the treatment plant on-site have the capacity to meet this target. A point of connection has been provided to allow for a cost-effective pipeline extension to additional users in the future. These works could be funded by either the scheme beneficiaries or broader customers if there is demonstrated willingness to pay in the future.

Customer and community engagement

Results from our Quarterly Community Survey program over the past two years indicate that between 50 and 75 per cent of survey participants have an expectation that we deliver recycled water for community greening. However, customers provided these insights without knowledge of any additional bill impacts, or trade-offs with other potential investments.

For our 2025-30 pricing proposal, we discussed recycled water for community greening with our community. It was a topic that our Community Panel deliberated on during our stage 3 community engagement program. They recommended that recycled water use for community greening, though important for health and wellbeing, should be considered a lower priority as it is costly, and the benefits are not distributed evenly across serviced areas. The Community Panel did not recommend any additional investment that would need to be recovered via broader customer bills.

Hunter Water has continued to work with Councils to identify the highest-value sites and the lower-cost servicing options for future community greening projects. These opportunities would only be pursued through alternative funding approaches, such as grant funding.

Outputs and expenditure

Table 3: Recycled water for community greening discretionary expenditure - expenditure overview 2020-25 ($millions)

	2020-21	2021-22	2022-23	2023-24	2024-25[1] ($real 2024-25)	Total 2020-25 ($real 2024-25)
Expenditure Allowance (nominal)	1.56	1.65	1.75	1.82	N/A	**7.16**
Expenditure (nominal)	-	0.18	0.53	1.29	5.67	**7.59**
Difference	1.56	1.47	1.22	0.53	(5.67)	**(0.43)**
Difference %	(100%)	(89%)	(70%)	(29%)	N/A	**6.0%**

1. 2024-25 values represent a forecast of expected expenditure by the end of the period.

Table 4: Recycled water for community greening outcome measures 2020-25

Project Description	Measure	Target	Actual
A discretionary project to provide more recycled water to irrigate open spaces	The additional volume of recycled water used to irrigate public spaces	Minimum 20ML p.a.	9ML p.a. to be operational by the end of 2024-25

Communications with customers

Further information on our recycled water for community greening can be found:

- All information on this program can be found on the Hunter Water Website
- A Hunter Water media release issued in June 2022 promoted a partnership with Lake Macquarie Council investing in irrigating sporting fields in the LGA. Following this, coverage was generated by local media including: The Newcastle Herald, NBN News, ABC Radio Newcastle, 2HD Radio, Newcastle Weekly.
- Updates on our recycled water for community greening were featured in Hunter Water's community newsletter 'The Stream' as well as our customer newsletter 'Making Waves' which is included when customers receive their water bill.

Actual revenue received from discretionary expenditure charge in the current pricing period

Tables 5 and 6 below show the revenue for the recycled water for irrigation and stormwater amenity improvement discretionary expenditure programs.

Across the 2020-24 period, the actual received revenue for the two programs was less than the target revenue set by IPART at the start of the period. Most of this variance is a result of inflation adjustments. The IPART 'pricing' CPI, applied to prices and inherent in actual revenue, is substantially lower over the period than the yearly June-to-June inflation used to inflate costs and the target revenue into $2024-25.

A minor deviation from the target revenue also occurred due to the difference between the forecast and the actual number of residential customer connections over the period. During the 2020-24 period, there were fewer connected customers than IPART allowed for when setting the discretionary expenditure prices.

The total variance across our discretionary programs is $118,500. Indexation differences account for $96,500 (5 per cent of target revenue) and differences in demand for services account for the remaining $22,000 (1 per cent of target revenue).

Table 5: Target and actual revenue for recycled water for irrigation ($000s, $2024-25)

	2020-21	2021-22	2022-23	2023-24	Total
Target Revenue	215.7	218.4	221.0	223.7	**878.8**
Actual Revenue	210.4	203.2	202.7	211.6	**827.9**
Difference	**(5.3)**	**(15.2)**	**(18.3)**	**(12.1)**	**(50.9)**
Difference due to indexation	*(3.3)*	*(13.5)*	*(15.4)*	*(9.2)*	***(41.4)***
Difference due to demand for services	*(2.0)*	*(1.7)*	*(2.9)*	*(2.9)*	***(9.4)***

Table 6: Target and actual revenue for stormwater amenity improvement ($000s, $2024-25)

	2020-21	2021-22	2022-23	2023-24	Total
Target Revenue	286.7	290.2	293.7	297.2	1,167.7
Actual Revenue	279.6	269.9	269.4	281.1	1,100.1
Difference	**(7.0)**	**(20.2)**	**(24.3)**	**(16.1)**	**(67.6)**
Difference due to indexation	*(4.4)*	*(17.9)*	*(20.5)*	*(12.2)*	*(55.1)*
Difference due to demand for services	*(2.6)*	*(2.3)*	*(3.8)*	*(3.8)*	*(12.5)*