



HUNTER WATER CORPORATION

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Newcastle NSW 2300

9 December 2024

Our Ref: HW2021-1219/2

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

By email to: water@ipart.nsw.gov.au

Dear Ms Donnelly,

RE: IPART's review of prices for Water Administration Ministerial Corporation (WAMC) from 1 July 2025

Thank you for the opportunity to participate in IPART's review of prices for WAMC.

WAMC's prices affect Hunter Water's operating expenditure in two ways:

1. WAMC's water management (bulk water) charges apply to our extraction of raw water.
2. Payments for recovery of DCCEEW's costs associated with the development and oversight of the Lower Hunter Water Security Plan.

We have reviewed WAMC's 2025-30 pricing proposal, along with IPART's Issues Paper, "*IPART is reviewing prices for WAMC and WaterNSW*". WAMC's proposal differ materially to:

- the operating expenditure included in our pricing proposal
- our expectations based on prior costs incurred
- our discussions with WAMC prior to lodgement of their proposal.

The disparity between WAMC's pricing proposal and Hunter Water's pricing proposal is approximately \$27.0m over the five-year period. In the absence of any adjustment, the operating expenditure allowed for in Hunter Water's prices would be inefficiently low.

The situation is described below and supported numerically by Attachment 1.

WAMC's water management prices

Hunter Water pays for WAMC's water management of rivers and groundwater sources, including our dams and sandbeds. The water management services provided by WAMC include ensuring available water is shared according to the agreed water sharing rules, that the integrity of water rights is protected, and water resources are managed sustainably.

Through a combination of water licences and approvals, and IPART's Determination for WAMC charges, Hunter Water pays fixed charges (\$ per ML of water entitlement) and variable charges (\$ per ML of water take). WAMC's 2025-30 Pricing Proposal would see charges paid by Hunter Water increase by 15% year, on average, over the period.

Hunter Water was not aware of this specific proposed increase, and our pricing proposal assumed the charges would remain constant in real terms from our 2023-24 base expenditure.

If IPART supports WAMC's proposal in full without a corresponding adjustment to the operating expenditure used to set Hunter Water's prices, Hunter Water would experience a shortfall of approximately \$3.5 million over the regulatory period.

Separate full cost recovery charge to recover the user share of costs of the Lower Hunter Water Security Plan

WAMC proposes to levy a separate price on Hunter Water to recover the full customer share of the Department's costs associated with the development and oversight of the Lower Hunter Water Security Plan. Previously, Hunter Water recovered these costs through its price determination, based on an agreement with the Department on the cost of delivering these planning services (see Attachment 1, Table 2).

We were advised by DCCEEW that the costs would be increasing, however the timing of this advice did not allow for us to revisit the operating expenditure forecasts underpinning our pricing proposal (see Attachment 1, Table 3).

The quantum of increase in WAMC's pricing proposal, compared with their advice to us, suggests there may be a transpositional error.

We request that IPART examine WAMC's expenditure assumptions underpinning this proposed charge for prudence and efficiency and reconcile it with the estimate provided to us by WAMC.

WAMC's charges for water management and for the Lower Hunter Water Security Plan represent non-controllable operating expenditure for Hunter Water. We are unable to drive any efficiencies on these costs. We would encourage IPART to include in its review of our proposed expenditure for 2025-30, and subsequent prices, an adjustment for the consequences of IPART's decisions in the WAMC price review.

We intend to work more closely, and in a timelier manner, with WAMC during the next pricing period to ensure that both organisations' 2030-35 pricing proposals are better aligned.

Should you have any queries in relation to this matter, please contact Emma Turner via

[REDACTED]

Yours sincerely

[REDACTED]

Jennifer Hayes
Executive Manager Finance and Business Performance

ATTACHMENT 1: IMPLICATIONS OF WAMC’S PRICING PROPOSAL ON HUNTER WATER OPERATING EXPENDITURE

Table 1 Operating expenditure implications for Hunter Water from WAMC’s proposed water management charges

\$m, \$2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	Total 2025-30
A. Entitlement and water take charges based on WAMC’s proposal^{1,2}	0.95	1.09	1.26	1.45	1.66	6.41
B. Operating expenditure included in Hunter Water’s pricing proposal³	0.58	0.58	0.58	0.58	0.58	2.90
Variance (A – B)	0.37	0.51	0.68	0.86	1.08	3.51

Source:

1. Based on Water Administration Ministerial Corporation, *2025-30 pricing proposal*, tables 60 to 64, pages 152 to 154. Unregulated rivers (Hunter) and Groundwater (Coastal).
2. Assumes 10-year average extraction from each water source (2014-15 to 2023-24)
3. Assumes 1.3% growth, consistent with overall growth factor applied across our total operating costs to trend the base year forward. For further description see *Hunter Water’s 2024 Pricing Proposal*, section 5.5.2, page 151.

Table 2 Actual payments from Hunter Water to WAMC for Lower Hunter Water Security Plan over current price period (equivalent to Table 3)

\$m, \$2024-25	2020-21	2021-22	2022-23	2023-24	Total 2020-24 (4 years)	Average annual
Payments to WAMC	0.44	0.45	0.04	0.08	1.01	0.25

Table 3 WAMC’s proposed Hunter Water Corporation (Metro) planning charge (Hunter unregulated river)

\$m, \$2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	Total 2025-30 (5 years)
A. WAMC proposed charge¹	4.15	4.43	4.74	5.10	5.51	23.93
B. WAMC estimated costs²	0.22	0.22	0.22	0.22	0.22	1.08
C. Operating expenditure included in Hunter Water’s pricing proposal³	0.09	0.09	0.09	0.10	0.10	0.47
Variance (A – C)	4.06	4.34	4.65	5.00	5.41	23.46
Variance (B – C)	0.12	0.12	0.12	0.12	0.12	0.60

Source:

1. Water Administration Ministerial Corporation, *2025-30 pricing proposal*, tables 84 and 85, page 168 and 169. Units are unclear, therefore we have assumed this is in \$million.
2. On 12 August 2024, DCCEEW advised Hunter Water that this amount would be included in its WAMC submission.
3. This amount was based on analysis of actual expenditure over several years, because Hunter Water had to finalise its expenditure proposals with adequate lead time to quality assure dependent modelling and finalise our pricing proposal. i.e. ahead of being advised of WAMC’s estimated costs.