



## **Making every drop count:**

**PIAC submission to IPART's price determination for  
Hunter Water**

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## **The Public Interest Advocacy Centre**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC seeks to:

- expose and redress unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate on issues affecting legal and democratic rights; and
- promote the development of law that reflects the public interest;
- develop and assist community organisations with a public interest focus to pursue the interests of the communities they represent;
- develop models to respond to unmet legal need; and
- maintain an effective and sustainable organisation.

Established in July 1982 as an initiative of the (then) Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC also receives funding from the Trade and Investment, Regional Infrastructure and Services NSW for its work on energy and water, and from Allens for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

## **Energy + Water Consumers' Advocacy Program**

This Program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- Park and Village Service;
- Ethnic Communities Council NSW;
- Rural and remote consumers;
- Retirement Villages Residents Association;
- Physical Disability Council NSW; and
- Affiliated Residential Park Residents Association.

# 1. Introduction

PIAC welcomes the opportunity to provide comment on the NSW Independent Pricing and Regulatory Tribunal's (IPART) *Review of prices for water, sewerage, stormwater drainage and other services for Hunter Water Corporation* (the review).

IPART is conducting this review to set Hunter Water's prices for the next determination period, commencing on 1 July 2013. IPART has stated that the review will seek to set prices that will 'allow Hunter Water to recover an amount of revenue that is equal to the full efficient costs of providing its regulated services'.<sup>1</sup>

IPART has developed an issues paper to help stakeholders understand the issues that will be considered as part of the review, as well as outline those issues on which IPART is seeking comment from both Hunter Water and stakeholders. Hunter Water has developed a pricing proposal based on the issues outlined by IPART, as well as those Hunter Water considers significant in this review. PIAC provides comment in this submission with reference to both the issues paper and Hunter Water's pricing proposal.

Hunter Water has proposed a price increase of 8.3% above inflation over four years for an average residential customer using 185 kilolitres of water per year. This equates to a cumulative increase of \$82.95, excluding inflation, in the fourth year of the determination.<sup>2</sup> Residents of strata title units using the same volume of water will face a 5.1% increase over the same period, or a cumulative increase of \$56.85, excluding inflation.<sup>3</sup> The variations in increases are attributed to a realignment of the water pricing structure, in line with IPART's final report on pricing structures for metropolitan water utilities, published in March 2012.<sup>4</sup>

Water prices for customers of Hunter Water currently cost less than 2% of household disposable income.<sup>5</sup> However, PIAC wishes to emphasise that the proposed price increases for this essential service do not occur in a vacuum. In particular, in recent years all households in NSW have experienced significant increases in the cost of another essential utility: electricity. Electricity prices in NSW have increased by an average of 50% across NSW since 2009. These increases are an important factor in the calls of PIAC and other organisations for a comprehensive of customer assistance measures for utility customers.

PIAC, therefore, welcomes Hunter Water's statement that customer affordability is the first of four core principles that have guided the company in developing its price submission.<sup>6</sup> PIAC urges IPART to ensure that the issue of customer affordability is the central consideration of the review. Any increases in the cost of water and sewerage service for customers of Hunter Water should be kept to the minimum amount necessary to deliver services as required by Hunter Water's operating licence.

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<sup>1</sup> IPART, *Review of prices for water, sewerage, stormwater drainage and other services for Hunter Water Corporation—Issues paper*, 2012, 1.

<sup>2</sup> Hunter Water Corporation, *Submission to IPART on prices to apply from 1 July 2013*, 2012, v.

<sup>3</sup> Ibid vii.

<sup>4</sup> Ibid 123.

<sup>5</sup> Ibid 126.

<sup>6</sup> Ibid i.

## 2. Affordability

Hunter Water has proposed average price increases of 2.1% per year over four years to 2016-17. This represents an increase of around \$21 per year over the four-year determination period sought by Hunter Water (see below).<sup>7</sup> Given the context of sustained increases in other essential the cost of other utilities, PIAC submits that there is an additional imperative for all proposed price increases to be closely scrutinised to ensure that they are only as large as is necessary.

### 2.1 Trends in affordability

Hunter Water's pricing proposal contains information about trends in household affordability indicators for water. The analysis indicates that water bills as a percentage of mean equivalised household disposable (EHD) income decreased from 2.7% in 1994-95 to 1.5% in 2007-08.<sup>8</sup> From there, water bills as a percentage of EHD income increased to 1.8% in 2009-10, the last year for which the necessary ABS figures are available to calculate the figure.<sup>9</sup> However, Hunter Water states that according to the company's projections, the figure for 2013 will remain at 1.8%.<sup>10</sup> The trend for pensioners in the second quintile of income is similar, with a decrease from 1.8% of the mean income level in 1994-95 to 1.3% in 2003-04, before returning to 1.9% in 2009-10. The percentage for that group is expected to remain constant for 2013.<sup>11</sup>

While these figures show that water bills take up a low percentage of EHD income for both the general population and pensioners, PIAC is concerned that the recent trend has been for the percentage to increase. PIAC recommends that the causes of these increases be closely examined to ensure that all expenditure by utilities such as Hunter Water is absolutely necessary to deliver the level of service required by its operating licence. Low-income and vulnerable consumers face increasing cost of living pressures and cannot afford any unnecessary increases in the price of essential services such as water.

#### ***Recommendation 1***

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*PIAC recommends that IPART examine all Hunter Water's proposed expenditure to ensure that prices for the essential service of water remain as low as possible for residential consumers.*

### 2.2 Changes to pricing structures

PIAC also notes that Hunter Water has realigned its pricing structure to give an increased weighting to water usage charges over fixed charges. Hunter Water states that the results of its customer engagement efforts revealed that 75% of customers favoured having greater control over an increased proportion of their bill.<sup>12</sup>

PIAC supports the effort made by Hunter Water to engage directly with its customers and be responsive to the results of those efforts. However, PIAC wishes to highlight that renters, who are over-represented among the low-income and vulnerable consumer groups, will potentially be

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<sup>7</sup> Ibid 124.

<sup>8</sup> Ibid 126.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid 128.

<sup>11</sup> Ibid 127-128.

<sup>12</sup> Ibid iv.

disadvantaged by this change. This is because under a standard NSW lease agreement, sewerage and water service charges are included in rent, with tenants paying for water usage. PIAC is sceptical about whether this decrease in the cost of providing a rental property will be passed through to tenants. Renters will therefore be faced with increased water usage bills without an associated decrease in their rent. The problem for renters is compounded by the fact that pensioner rebates are only available to homeowners, meaning pensioners who live in rental accommodation are ineligible for this financial assistance. The issue of assistance for renters is discussed in further detail below.

### **2.3 Operating costs: electricity use**

The increasing cost of electricity flows through to the cost of water. Hunter Water has stated that electricity to run its 520 pumping station contributes 12% of total operating expenses.<sup>13</sup> In 2013-14, this will equate to around \$13.8 million.<sup>14</sup> Hunter Water states in its price submission that two full-time employees are responsible for delivering savings in electricity costs through both energy efficiency and 'optimising operations to take advantage of lower energy tariffs'.<sup>15</sup> According to Hunter Water, around \$4.6 million has been saved, including through measures such as seeking bill corrections.<sup>16</sup>

PIAC submits that these savings represent a significant benefit to consumers, as they reduce the ongoing operating costs of Hunter Water that must be paid by consumers. In addition, from an energy policy perspective, if large electricity users such as Hunter Water are able to shift their electricity use away from peak times, this will also reduce peak demand on the grid and, consequently, the amount of electricity network investment required to be funded from bills paid by consumers. PIAC therefore recommends that Hunter Water increase the resources devoted to energy efficiency and other measures to reduce the corporation's electricity costs during the next determination period.

#### ***Recommendation 2***

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*PIAC recommends that Hunter Water examine all possible options for reducing its electricity bill, including via energy efficiency measures and further opportunities to shift consumption to periods of lower energy tariffs.*

### **2.4 Water saving and reduced revenue**

PIAC is concerned about the consequences of Hunter Water becoming subject to licence conditions regarding promoting water savings during the current price determination period, as this could create the need for lost revenue to be recovered in the future. Schedule A of Hunter Water's Operating Licence states that the Lower Hunter Water Plan (the Plan) is expected to be completed in the summer of 2013-14.<sup>17</sup> Once the Plan is completed, IPART 'envisage[s] the Minister will amend [Hunter Water's] Licence to place obligations on Hunter Water with respect to the implementation' of the plan.<sup>18</sup>

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<sup>13</sup> Hunter Water Corporation, *Price submission summary, 2012*, 4.

<sup>14</sup> Hunter Water Corporation, above n 2, 48.

<sup>15</sup> Ibid 43.

<sup>16</sup> Ibid.

<sup>17</sup> IPART, *Hunter Water Corporation Operating Licence 2012-17–Schedule A: Background notes, 2012*, 32.

<sup>18</sup> Ibid.

PIAC understands that the plan is likely to contain provisions regarding water efficiency and promoting water saving by consumers. If these savings have a significant impact on water consumption, Hunter Water's revenue could be reduced to the extent that a sharp increase in prices will be required at the start of the next determination period in order to cover this shortfall. As such jumps in price can have negative impacts on consumers, PIAC recommends that IPART consider this potential impact as part of its price determination process in an effort to smooth any price increases.

### **Recommendation 3**

*PIAC recommends that IPART consider how water saving obligations will impact on Hunter Water's revenue projections and make allowances for this to avoid the need for a large increase at the start of the next price determination period.*

## **3 Customer assistance**

PIAC acknowledges that there have been some notable improvements to Hunter Water's customer assistance programs in recent years. In particular, PIAC welcomes the NSW Government's decision to link water rebates to price movements. Under this policy, announced in 2009, the value of the rebate has increased from \$175 in 2008-09 to \$258 in 2012-13.<sup>19</sup> The rebate is further projected to rise to \$280 in 2016-17, staying at approximately 42.3% of the average pensioner bill over the next four years.<sup>20</sup> PIAC contends that such indexing of concessions represents best practice for utility concessions and will continue to lobby for it to be adopted for all eligible customers of water and energy providers throughout NSW.

### **3.1 Hunter Region No-Interest Loan Scheme**

Hunter Water provided seed funding for a Hunter Region No Interest Loan Scheme (HR NILS), in response to a submission from PIAC as part of Hunter Water's 2009-2013 price determination.<sup>21</sup> Hunter Water also states in its price submission that it is working with Ausgrid to help clients purchase water-efficient washing machines through a program being run by the electricity network.<sup>22</sup> PIAC welcomes these initiatives, which have significant potential to benefit low-income consumers, including people living in rental accommodation who have difficulty accessing many low-income assistance measures related to water. Renters are, however, able to take appliances such as washing machines with them when they move out of a rental property.

While the scheme initially provided assistance for eligible customers to purchase washing machines, Hunter Water further states that the scheme has been expanded to include fixtures such as toilets. PIAC submits that given the success of NILS programs—and the considerable benefits consumers can derive from replacing out-dated appliances—Hunter Water should consider providing further funding to expand the HR NILS to cover, in particular, water heaters and dishwashers. The replacement of leaking hot water systems and inefficient dishwashers has

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<sup>19</sup> Ibid 130.

<sup>20</sup> Bill for 140 kilolitres of water.

<sup>21</sup> Ibid 134.

<sup>22</sup> Ibid.

significant potential to reduce both water and electricity bills for low-income consumers in the Hunter region.

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**Recommendation 4**

*PIAC recommends that Hunter Water provide ongoing funding to allow the Hunter Region No Interest Loan Scheme to be expanded to cover water heaters and dishwashers.*

### 3.2 Promoting customer assistance measures

PIAC submits that Hunter Water should diversify the approaches it currently uses to promote customer assistance measures such as the availability of Payment Assistance Scheme (PAS) vouchers and the pensioner tap re-washing service. At present, PIAC understands that these programs are promoted on Hunter Water's website and through a bill insert which, under Hunter Water's Operating Licence, must be provided to all customers at least once per year.<sup>23</sup> However, PIAC submits that there are problems with both these approaches. Firstly, consumers who are older, low-income or vulnerable are less likely than the general population to have access to the internet. Secondly, customers experiencing hardship often fail to open bills and other correspondence from utilities. Reaching renters through bill inserts is also not possible, as bills are sent to landlords or managing agents. PIAC further understands that renters are unlikely to proactively engage with water utilities.

PIAC, therefore, recommends that Hunter Water engage with community organisations to promote these customer assistance measures. These organisations have experience in promoting assistance programs to their clients and often have existing, well-developed networks to distribute information that assists their clients. In addition, PIAC recommends that Hunter Water promote customer assistance measures through community newsletters. Hunter Water is currently required under its Operating Licence to promote assistance measures in local newspapers at least once per year.<sup>24</sup>

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**Recommendation 5**

*PIAC recommends that Hunter Water promote the assistance measures available to its customers through a wider variety of channels, including through community organisations and newsletters.*

### 3.3 Access to Centrepay

PIAC submits that Hunter Water should allow its customers to use Centrepay to pay their water bills, if these customers so choose. Centrepay is an extremely useful and effective tool in assisting Centrelink recipients to manage low incomes. In addition, Centrepay would provide Hunter Water with greater certainty about the receipt of payments from many hardship customers. Centrepay is offered by the two largest electricity providers in NSW, Energy Australia and Origin Energy,<sup>25</sup> as well as the state's biggest water provider, Sydney Water.<sup>26</sup> In the

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<sup>23</sup> IPART, above n 17, cl 5.2.1.

<sup>24</sup> Ibid cl 5.2.4

<sup>25</sup> Energy Australia, *Community welfare workers*, <[www.energyaustralia.com.au/nsw/residential/your\\_account/payment\\_difficulty/community\\_welfare\\_workers](http://www.energyaustralia.com.au/nsw/residential/your_account/payment_difficulty/community_welfare_workers)>, as at 28 September 2012; Origin Energy, *Customer hardship policy*, 2011, 5.

interests of equality, PIAC submits that customers of Hunter Water should not be denied the same option to use the Centrepay service.

PIAC notes that consumer advocates have asked for Hunter Water to offer Centrepay before. Both PIAC and the NSW Council of Social Services (NCOSS) called for Hunter Water to offer Centrepay as part of Hunter Water's 2009 price determination, as noted by IPART in its final report for that process.<sup>27</sup> Due to Hunter Water's apparent reluctance to introduce access to this important income management tool, PIAC recommends not only that Hunter Water reverse this decision, but that IPART recommend that the NSW Government introduce a requirement for all utility providers to allow access to Centrepay. In addition, Hunter Water should actively promote the availability of Centrepay to its customer base, including through those methods discussed above.

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#### **Recommendation 6**

*PIAC recommends that Hunter Water allow its customers to pay their bills, or bill instalments, using Centrepay. The availability of Centrepay should be actively promoted to Hunter Water's customers.*

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#### **Recommendation 7**

*PIAC recommends that the NSW Government introduce a requirement for all utility providers to offer the use of Centrepay to their customers.*

### **3.4 Reporting of customer hardship performance**

PIAC has concerns regarding a lack of transparency surrounding Hunter Water's performance with respect to customer assistance and hardship programs. PIAC would like to see Hunter Water produce a yearly report on issues such as the number of customers on payment plans (including the number who drop off such plans), the number of customers placed on flow restrictions, the number of customers receiving pensioner rebates and the number of customers who have received water-efficiency or water saving assistance, such as taking up the pensioner tap re-washing service and NILS.

Such reporting is an important part of assessing trends in water affordability throughout the determination period. The report would also be valuable in assessing the effectiveness of Hunter Water's customer assistance programs and whether these programs need further development or alternation.

PIAC would also like greater detail on Hunter Water's intentions for continuing customer assistance and hardship programs throughout the determination period. For example, will the pensioner tap re-washing service be provided throughout the period? Though this service is mentioned in Hunter Water's submission, there is no way to know how many people it has assisted and, consequently, what value it has delivered to consumers. PIAC submits that

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<sup>26</sup> Sydney Water, *Financial assistance*, <[www.sydneywater.com.au/Customerservices/CommunityAssistance/FinancialAssistance/#CP](http://www.sydneywater.com.au/Customerservices/CommunityAssistance/FinancialAssistance/#CP)>, as at 28 September 2012.

<sup>27</sup> IPART, *Review of prices for water, sewerage, stormwater and other services for Hunter Water Corporation—Final report*, 2009, 174.

consumer assistance measures should be measurable and reported on to facilitate continuous improvement, maximise their value to consumers and promote their efficient delivery.

PIAC also notes that the Hunter Water toilet exchange program has been discontinued and is concerned that other customer assistance programs may be similarly discontinued. PIAC would find this particularly concerning, particularly if the cost of these programs is included in the pricing proposal.

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### ***Recommendation 8***

*PIAC recommends that Hunter Water be required to produce a yearly customer assistance and program delivery report, containing information including the number of customers in hardship and the number of customers who have been placed on flow restrictions due to non-payment of bills.*

## **3.5 Assistance to renters**

PIAC is concerned that due to the nature of water billing, tenants in rental accommodation do not receive the full benefit of some of the customer assistance measures available to owner-occupiers. Renters are also less likely to benefit from water efficiency measures because they are not in a position to make improvements to their homes. PIAC, therefore, submits that Hunter Water should increase its efforts in this area to help renters reduce their water bill, particularly in light of the increased weighting of water use under the proposed new pricing arrangements.

One option to achieve this would be a scheme to install water-efficient toilets in rental properties, modelled on the recently discontinued Hunter Water Toilet Replacement Program. While there are some existing requirements for landlords to meet water efficiency targets before they can pass on water use charges to their tenants, these standards do not extend to toilets.<sup>28</sup> A program where Hunter Water works with landlords to replace high water-use toilets in rental properties would reduce water consumption by renters and go some way to offsetting the increases in bills for water use that these consumers will face if IPART adopts Hunter Water's proposed pricing approach. In line with PIAC's other customer assistance recommendations, outcomes under any such program should be regularly reported to track the initiative's progress and success.

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### ***Recommendation 9***

*PIAC recommends that Hunter Water introduce a program to replace inefficient toilets in rental properties with modern, low water-using models.*

## **4 Length of determination**

In the issues paper, IPART asks for stakeholder comment on the length of the price determination, which must be for a period of between one and five years.<sup>29</sup> As IPART acknowledges, there are potential benefits to consumers from longer determination periods, including 'stronger incentives for Hunter Water to increase efficiency' to save on operating costs.<sup>30</sup> Longer determination periods also provide certainty for Hunter Water, which may allow

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<sup>28</sup> Residential Tenancies Regulations 2010 (NSW), sch 1, cl 11.

<sup>29</sup> IPART, above n 1, 20

<sup>30</sup> Ibid 21.

for more long-term planning regarding investment decisions. At the same time, longer determination periods carry the risk that the benefits of any efficiencies achieved by Hunter Water will not be passed through to consumers for some years, a risk that IPART also acknowledges in its issues paper.<sup>31</sup> PIAC, therefore, believes that an appropriate balance between these two considerations is for IPART to deliver a four-year price determination for Hunter Water.

A four-year determination would also bring the price review cycle in line with the review of Hunter Water's operating licence. PIAC believes that aligning these processes makes administrative sense, as there are clearly links between the two. Such alignment will also help small consumer advocacy organisations such as PIAC, whose staff are required to focus on numerous issues throughout the year. Aligning these processes will allow the knowledge gained through participation in one process to be quickly and more easily applied to the other. Increasing the ease with which stakeholders who do not have dedicated staff who are experts on water price determinations can participate in regulatory process is a more equitable outcome, which stands to benefit all consumers in Hunter Water's region.

However, it should also be noted that PIAC's support for a four-year determination is subject to Hunter Water addressing the concerns about the reporting of its hardship performance outlined above.

### ***Recommendation 10***

*PIAC recommends that IPART hand down a four-year price determination for Hunter Water.*

## **5 Conclusion**

PIAC thanks IPART for the opportunity to contribute to the review of prices for Hunter Water services.

PIAC urges IPART to insure that this rise is only as large as necessary. Low-income and vulnerable consumers face increasing challenges in staying connected to essential services such as water. PIAC also recommends that Hunter Water take further steps to examine whether it can reduce its operating costs, including its electricity costs. PIAC submits that any increase in the price of utilities, including the relatively modest 8.3% above inflation over four years proposed by Hunter Water, add to the need for a review of all customer assistance measures related to both energy and water.

PIAC acknowledges that there have been some improvements in the customer assistance measures available to Hunter Water customers in recent years. PIAC recommends that Hunter Water build further on these measures, by providing funding for the HR NILS to be expanded. Hunter Water should also increase its effort to promote assistance measures to customers and produce a report on customer hardship and assistance program deliverables indicators. In particular, Hunter Water should make Centrepay available to its customers. Hunter Water has stated that customer affordability is a key principle that has guided its price proposal. PIAC urges IPART to be similarly guided by this aim in assessing Hunter Water's proposal and developing its draft price determination.

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<sup>31</sup> Ibid.