



## **A fair price for all residents**

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

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**Energy + Water Consumers' Advocacy Program**



## **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;
- 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 NSW Trade and Investment 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 Consumer's 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 Associate of NSW;
- Tenants Union NSW;
- Ethnic Communities Council NSW;
- Physical Disability Council NSW;
- St Vincent de Paul Society NSW; and
- The Salvation Army Eastern Australia Conference.

# 1. Introduction

PIAC welcomes the opportunity to provide comment on the NSW Independent Pricing and Regulatory Tribunal's (IPART) *Review of Prices for Hunter Water Corporation* (the review).

IPART is conducting this review to set the prices for water, wastewater and stormwater drainage services charged by Hunter Water Corporation (Hunter Water) for the next price period, commencing 1 July 2016 (the 2016 determination period). The review will assess the proposed price changes against potential customer impacts, to ensure only the efficient costs of providing the regulated monopoly service are passed through to customers.<sup>1</sup>

IPART has modified the review timetable for the 2016 determination period, adopting a 'propose-response' process. IPART has prepared its issues paper after receiving Hunter Water's pricing submission. IPART took the view that this would facilitate the stakeholder consultation process and provide Hunter Water with more freedom to develop its pricing proposal without the constraints of the issues paper.<sup>2</sup> These changes do not affect PIAC and we will provide comment with respect to both Hunter Water's submission as well as IPART's issues paper.

IPART has brought forward Hunter Water's price determination, at Hunter Water's request, by a year to align Sydney Water and Hunter Water's determination periods. PIAC believes such a move is justified, as Sydney Water and Hunter Water are the two largest metropolitan water utilities in New South Wales. This will allow IPART and the water utilities to determine prices based on the same financial market data and enable comparison between the two utilities, where appropriate.<sup>3</sup>

Hunter Water has proposed a pricing plan that will result in a price rise in line with inflation for residents of freestanding properties and a price rise above inflation for residents of apartments, due to increases in the fixed wastewater service charge. In more detail the break down of price changes are for a typical freestanding house bills would rise from \$1,069 in 2015-16 to \$1,171 in 2019, or an average increase of \$25 per year in nominal terms. This would be a decrease in real terms of \$8 for the price determination period. For a typical residential apartment the bill would increase from \$826 in 2015-16 to \$1084 in 2019 or a \$64 per year increase in nominal terms. This would be an increase of \$156 over the price determination period. Finally for pensioners their average bill would increase from \$563 in 2015-16 to \$615 in 2019-20 or a \$13 per year increase in nominal terms. This would be a decrease in real terms of \$6 over the price determination period.<sup>4</sup>

It is unclear how inflation results in a decrease in price in real terms for residents of freestanding properties and pensioners, while for residents of apartments inflation results in an increase in price in real terms. PIAC therefore asks that IPART and Hunter Water provide more clarity on the expected price outcomes from any changes during this price determination.

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<sup>1</sup> IPART *Review of prices for Hunter Water Corporation From 1 July 2016 Water – Issues Paper*, 2015, 1.

<sup>2</sup> Ibid 2.

<sup>3</sup> Ibid 1.

<sup>4</sup> Ibid 91.

## 2. Customer engagement

### 2.1 Centrepay

During the last price determination (2013-17), PIAC recommended that Hunter Water adopt the use of Centrepay for residents on Centerlink payments to assist them in managing their finances. In June 2013, Hunter Water adopted this as a payment method. To date, 136 customers have signed up to Centerpay.<sup>5</sup> PIAC commends Hunter Water for providing another avenue for customers seeking assistance to manage the costs of living. This is a long-awaited positive step towards providing adequate assistance to residential customers.

As this is a new program, PIAC anticipates that the number of customers using this method of payment will increase and PIAC encourages Hunter Water to advertise Centrepay to further increase the number of participants. In addition, Hunter Water should also consider developing new outreach methods to promote the availability of Centrepay.

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

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*PIAC recommends that Hunter Water develop methods to conduct outreach to promote this payment method and encourage all eligible residents use Centerpay to help manage their bills.*

### 2.2 Promotion of customer assistance measures

Hunter Water recently implemented a new Account Assistance policy. This was developed considering input from community groups such as PIAC through previous price determination submissions. The Account Assistance program sets out the 'process for identifying and assisting customers in financial hardship and training for customer service employees'.<sup>6</sup> PIAC is pleased to see this policy has been adopted but notes that Hunter Water has identified difficulties communicating with customers who miss bill payments or who may be at risk of late payments. Hunter Water indicates this is due to the increase in use of mobile phones and subsequent decrease in landline phones.<sup>7</sup> PIAC seeks clarification from Hunter Water on this issue and how it plans to accommodate this broader social shift.

A recent study examining the causes and impacts of disconnection among energy users in Victoria noted that many of the case study respondents were victims of domestic violence. As past or current victims of domestic violence, respondents did not answer calls from unknown numbers as a safety precaution.<sup>8</sup> PIAC would like to see Hunter Water's Account Assistance policy and outreach to vulnerable customers incorporate measures to provide assistance to victims of domestic violence that recognises the sensitivity of this matter. These steps may assist Hunter Water in overcoming some of the previously mentioned difficulties contacting customers.

PIAC also notes that Hunter Water has yet to implement planned community outreach to promote its hardship assistance programs. At the moment, the program is advertised in local media and a

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<sup>5</sup> Hunter Water, 99.

<sup>6</sup> Ibid 99.

<sup>7</sup> Ibid 99.

<sup>8</sup> Consumer Action Law Center. *Heat or Eat. Households should not be forced to decide whether they heat or eat.* 2015, 39.

newsletter bill insert. 'Planned expansion of the community outreach including using print media, community networks, EWON, PIAC, Centrelink, schools, aged care networks, and councils' has not occurred.<sup>9</sup> PIAC identifies this as a critical step in improving the application of the hardship policy.

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### **Recommendation 2**

*PIAC recommends that Hunter Water implement planned expansion of its outreach programs as soon as possible.*

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### **Recommendation 3**

*PIAC recommends that Hunter Water's Account Assistance policy be amended to make express mention of how to contact and work with victims of domestic violence who are at risk of financial hardship.*

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### **Recommendation 4**

*PIAC recommends that Hunter Water identify methods such as the use of referral systems, to overcome issues communicating with customers who are experiencing financial hardship. These methods should be developed with the assistance of the community consultative forum.*

## **3. Water price**

As previously mentioned, the price determinations for both Sydney Water and Hunter Water are occurring concurrently. One of the main reasons for this change was so that the utilities and IPART make pricing decisions using the same financial market information. It is, therefore, interesting to note that one of the key drivers of the price decrease for Sydney Water is the current low interest rate environment, and yet this issue was not raised in Hunter Water's price submission. This issue and other elements of water pricing are discussed below.

### **3.1 Water service charge**

Hunter Water has indicated that it anticipates a 2.8% increase in revenue required per year over the coming price determination period. This increase will be recovered from the water service charge.<sup>10</sup>

All residential water service charges will increase over the next four-year period from \$17.89 to \$58.72; this is a total change of 228%. The impact will be felt differently across residential groups. As previously mentioned, residents in freestanding homes will only see a rise in water service charges in line with inflation. While residents in apartments will see a real price increase of \$64 per year, a portion of this increase is due to changes in the water service charge. The additional increase is due to change in wastewater service charges for apartments.<sup>11</sup>

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<sup>9</sup> Hunter Water 99.

<sup>10</sup> Ibid iv.

<sup>11</sup> Ibid 91-92.

PIAC is concerned about the impact of price increases on residents of apartments. Apartments are becoming a more common form of housing in Australia and a significant proportion of these are renters. In 2001, 54% of occupants of apartments across Australia were renters, which is a higher proportion than for freestanding houses.<sup>12</sup> A recent survey by Choice found that 39% of renters were struggling with the cost of living and that 41% of renters live on a low income. This research found that renters are more likely than homeowners to deliberately not pay a bill on time to balance week-to-week costs.<sup>13</sup> In addition the proportion of renters who were born overseas has also increased, which could result in more renters being susceptible to bill issues as they may not be aware of their rights, particularly when it comes to water bill charges.<sup>14</sup>

As previously mentioned, Hunter Water anticipates a 2.8% increase in required revenue throughout the price determination period. However, Hunter Water has also stated that it has made significant efficiency savings (\$35 million) during the current price determination period. According to its submission, these savings offset the current cost pressures (\$24 million).<sup>15</sup> PIAC is concerned that there is no requirement for Hunter Water to increase prices to reflect stated cost increases associated with providing water to domestic costumers. These price increases in combination with additional changes to the wastewater service charge will contribute to cost of living pressure for residents. Therefore, any increase must be thoroughly examined to ensure that it is justified and efficient.

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### **Recommendation 5**

*PIAC recommends that IPART examine the proposed service charges (both water and wastewater) to determine if they are indeed efficient and necessary given Hunter Water's proposed efficiency savings.*

## **3.2 Wastewater service charge**

The other portion of the price increase for residents of apartments is due to changes in the wastewater service charge.

During the previous price determination period, IPART determined that the cost of supplying wastewater to apartments was not lower than the cost of supplying wastewater to freestanding houses. IPART determined that the wastewater service charge for apartments be increased to equal that of freestanding houses. During that process, Hunter Water argued against this decision. IPART determined that apartments' wastewater service charge should increase from 65% to 75% compared with that of houses.<sup>16</sup> In Hunter Water's current proposal, it has now agreed with IPART and it proposes increasing the wastewater service charge to 100% of that of houses.<sup>17</sup> This is an increase of 25%, if the costs of servicing apartments are indeed equal to that of freestanding houses, this increase is a significant increase to occur in one go. PIAC is concerned that this increase is too steep and would prefer that the increase be phased in to smooth the impact of this price rise for residents. Accordingly, PIAC would like to see this increase smoothed with an incremental price increase to 85% of that of houses and in the

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<sup>12</sup> ABS 4102.0 - Australian Social Trends, 2004.

<sup>13</sup> Choice. *Consumer Pulse: Australians' attitudes to cost of living 2014-2015*, (2015) 16.

<sup>14</sup> ABS np.

<sup>15</sup> Hunter Water, 29.

<sup>16</sup> IPART, 81.

<sup>17</sup> Hunter Water, 83.

following price determination bring the prices in line. This will help balance the significant increase that residents of apartments are facing with the water service charge.

Hunter Water has expressed concern about the impact of other changes to wastewater charges, demonstrating there is an issue with a sudden increase. Measures should be taken to make this transition as smooth as possible for residents of apartments.

### ***Recommendation 6***

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*PIAC recommends that the increase to wastewater service charges from apartments be phased in over the next two price determination periods. PIAC also recommends that Hunter Water work closely with community groups to communicate the reasons behind this change to ensure residents understand the price increase.*

### **3.3 LRMC and water usage price**

Hunter Water has proposed maintaining the water usage price at \$2.24 per kL, in real terms. This is due to customer feedback that the majority of customers prefer greater control over their bills<sup>18</sup>. The water usage price is also set in relation to the long-range marginal cost (LRMC) that includes the costs associated with the Tillegra Dam project that has since had planning approval denied. Hunter Water has rolled over the LRMC from the previous determination period calculated in 2009, which includes the costs for the Tillegra Dam.<sup>19</sup>

Hunter Water has not amended the LRMC forecasting to reflect these changes and to reflect the absence of any significant supply augmentation projects in the next 20 years, as outlined by the Lower Hunter Water Plan (LHWP).<sup>20</sup> It would seem that residents are paying for a supply project that will not occur while also paying an increase in their service charge.

PIAC supports efforts to respond to customer preference for the water usage price to form a larger proportion of the bill. Yet there is a proposed increase in the fixed portion of the bill, going against IPART's economic principles is that service charges generally increase when usage prices reduce, to make up the shortfall.<sup>21</sup> In this case, there has been no decrease in usage price.

PIAC is concerned about the increase in service charges that do not appear to be justified given the broader economic environment and future water supply needs as indicated in the Lower Hunter Water Plan.

### ***Recommendation 7***

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*PIAC recommends that IPART examine the causes of the water service charge increase to ensure it is efficient and genuinely warranted, given the broader economic and water supply factors at play.*

### **3.4 Water service charge terminology**

Hunter Water did not raise water service charge terminology as an issue in its submission to IPART. Rather this is currently being reviewed as part of the Sydney Water price determination.

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<sup>18</sup> Ibid 72.  
<sup>19</sup> IPART 74.  
<sup>20</sup> Ibid 73.  
<sup>21</sup> Ibid 74.

Sydney Water has found there is sufficient confusion among customers over what the 'water service charge' is to warrant a change. IPART has determined that the terminology should be reviewed and changed to better reflect the role of the service charge to customers.<sup>22</sup> In order to maintain consistency across water utilities, it would make sense to adopt any terminology changes during the Hunter Water price determination.

PIAC's submission to Sydney Water's price determination indicates our preferred term is one of the following:

- fixed charge
- water network charge
- distribution charge.

### ***Recommendation 8***

*PIAC recommends that any changes to service water charge terminology be adopted consistently across water utilities.*

## **3.5 WACC and lower interest rate environment**

PIAC notes that Sydney Water has been able to lower its forecast Weighted Average Cost of Capital (WACC), in part due to the current low interest rates, resulting in a WACC of 4.6% (down from 5.6%). This change in WACC makes up 52% of the overall price reduction for consumers proposed by Sydney Water.<sup>23</sup> However, Hunter Water is maintaining the WACC at 4.6% from the last price determination. Sydney Water notes if the current interest rates change, the WACC Sydney Water has proposed will change and may be different than what IPART determines. This will have an impact on the final price.<sup>24</sup> It would appear likely that the Reserve Bank of Australia will maintain the interest rate at or close to 2%. It is then not unreasonable to suggest that the WACC for both Hunter Water and Sydney Water will be lower than they have forecast.

PIAC would like more clarification about the calculation of Hunter Water's WACC and how the current and forecast interest rate will impact on their proposed prices. PIAC appreciates that Hunter Water is concerned with the financial stability of the company after receiving a credit rating of Baa2 from Moody's.<sup>25</sup>

In addition, both Hunter Water and Sydney Water have indicated that they intend to use a 40:60 split between short-term and long-term debt to reflect the current debt structure.<sup>26</sup> IPART has indicated that it does not support this ratio. IPART may, in its final determination, make both utilities use a 50:50 ratio.<sup>27</sup> PIAC would like more information as to how this change would be reflected in the final residential water price structure.

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<sup>22</sup> Ibid, 93.

<sup>23</sup> Sydney Water, 15.

<sup>24</sup> Ibid 226.

<sup>25</sup> Hunter Water, 68.

<sup>26</sup> Sydney Water, 224-226 and Hunter Water, 62-63.

<sup>27</sup> IPART, 59.

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**Recommendation 9**

*PIAC recommends Hunter Water provide more detailed analysis of the impact of interest rates on the calculation of its WACC and how this impacts on prices for consumers, to ensure they are able to understand the flow-on effects for their bills.*

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**Recommendation 10**

*PIAC recommends that IPART and Hunter Water provide more information about the impact of changes to the short-term/long-term debt ratio calculation in the WACC will have on residential bills.*

## 4. Regulatory changes

Sydney Water has proposed significant changes to the regulatory process for water price determination, which IPART is considering as part of the Sydney Water price review. IPART is seeking feedback on whether to apply these changes to Hunter Water as well, if it approves Sydney Water's proposals.

PIAC is in the process of making a submission to IPART for Sydney Water's price determination with a detailed discussion of these changes in that submission. Refer to that submission for a detailed discussion, in summary, Sydney Water is proposing three regulatory changes to water pricing with the implementation of:

- weighted average price cap,
- efficiency benefit sharing scheme, and
- general cost pass through mechanism.

PIAC has made detailed comments about these regulatory changes in its submission to the Sydney Water price determination. PAIC recommends that IPART fully consider these comments and apply its decision consistently across the water utilities.

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**Recommendation 11**

*PIAC recommends that any changes to the regulatory environment be applied to Hunter Water to maintain consistency across the NSW urban water sector.*

## 5. Conclusion

PIAC is concerned by the price increases proposed in Hunter Water's submission, especially the potential impact on residents of apartments.

Further, PIAC is concerned that the proposed prices are not inline with the current financial environment, future water supply options and timing and the current financial position of Hunter Water. PIAC, therefore, requests that IPART closely examine the proposed pricing structure to ensure they are efficient and equitable.

Finally, PIAC would like to commend Hunter Water for the addition of Centrepay as a method for customers on low incomes to pay their bills.