



public interest
ADVOCACY CENTRE

Submission to IPART's Draft Report Review of Prices for Hunter Water Corporation from July 2020

15 April 2020

About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in Sydney.

Established in 1982, PIAC tackles barriers to justice and fairness experienced by people who are vulnerable or facing disadvantage. We ensure basic rights are enjoyed across the community through legal assistance and strategic litigation, public policy development, communication and training.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. The program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives input from a community-based reference group whose members include:

- NSW Council of Social Service;
- Combined Pensioners and Superannuants Association of NSW;
- Ethnic Communities Council NSW;
- Salvation Army;
- Physical Disability Council NSW;
- Anglicare;
- Good Shepherd Microfinance;
- Financial Rights Legal Centre;
- Affiliated Residential Park Residents Association NSW;
- Tenants Union;
- The Sydney Alliance; and
- Mission Australia.

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The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

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1. Introduction

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART's) *Review of prices for Hunter Water Corporation from July 2020* Draft Determination, and is broadly supportive of the positions adopted.

We support the ongoing transition to pricing based on volumetric household water usage, which reflects the preference for greater control of their own costs that is consistently expressed by consumers. Significant scope exists to progress this transition further, particularly in relation to charges for wastewater. While the rebalance to water usage charges is a welcome recognition of community preferences, we do not believe that retaining a flat-tariff structure fully reflects the need to balance economic efficiency, equity and fairness with an incentive to conserve. PIAC reiterates our recommendation that more comprehensive reform of pricing is needed. As an important part of this, a two-part inclining block tariff structure would provide a more equitable and effective means of recovering costs in a way that gives a clear incentive for conservation and efficiency.

In the remainder of this submission we detail these specific elements of the draft determination and other relevant issues.

2. General principles

PIAC reiterates our support for a two-part tariff structure for urban water utilities. Climate change, as well as recent intense and prolonged drought, highlights the increasing unreliability of water resources. Storages deplete much more rapidly than predicted, and long-term average inflows and yields cannot be relied upon. Projected population growth in the Hunter will increase the burden upon existing water sources, and multiply the risk that the changing climate will result in scarcity, and negatively impact access to water essential for the community. We recommend initiating a comprehensive review of pricing principles and structures for all water services at the completion of this regulatory determination.

2.1 Two-part tariffs.

PIAC recommends the reimplementing of a two-part tariff structure for Hunter Water. We note this structure was previously applied to Sydney Water, and was previously recognised by IPART as the most appropriate means of balancing pricing efficiency with the wider roles that water pricing must fulfil. Indeed, in its own review into price structures intended to reduce demand in 2004, IPART¹ found two-part tariffs:

- send a strong signal about the need to conserve water that particularly targets high water users, by targeting the 'discretionary' proportion of consumption that is more responsive to price
- can be set at a level that minimises the number of customers who are required to pay the higher Tier 2 usage charge for efficient or non-discretionary (essential) water use
- have considerable potential to reduce demand

¹ IPART. ['Investigation into price structures to reduce the demand for water in the Sydney Basin – final report'](#) July 2004

- minimise impact on vulnerable customers
- are easy to understand, implement and administer.

In addition, we highlight two-part tariffs more strongly align with the consistently expressed consumer preferences that basic essential water needs are affordable for all in the community, and those with higher usage pay higher costs.

Well-designed two-part tariffs also provide a consistent, long-term price signal that households can respond to, for instance, by making investments that improve efficiency of their usage, or by changing their behaviours in ways that lower usage while maintaining household health and well-being.

PIAC strongly supports the consistent implementation of two-part tariffs across the regulated water utilities. Appendix A provides previous correspondence with IPART in support of the implementation of a two-part tariff structure by Sydney Water. We consider these principles to be applicable to Hunter Water.

2.2 Community preferences

PIAC has consistently and strongly supported the need for meaningful ongoing engagement with the community to be integrated into business investment, planning and pricing decision making.

We acknowledge the improved performance of Hunter Water in seeking to identify its community stakeholders. The processes undertaken as part of this regulatory proposal sought direct input on community preferences regarding potential 'discretionary' projects, and the willingness of the community to bear the costs of these projects. PIAC agrees that, in the context of this proposal, and the nature and materiality of the projects in question, the engagement undertaken is a reasonable basis for proceeding with the projects at this time.

However, we note that the consultant's report by Gillespies raised a number of issues with the willingness to pay (WTP) processes undertaken by Hunter Water, and whether they meet the standards set by IPART in its guidelines for engagement. While PIAC agrees that the identified projects can be approved on the basis of the engagement undertaken, we highlight the significant room for ongoing improvement in the rigour and depth of consultation.

Beyond the issues identified by the Gillespies report, PIAC contends that the process and structure of engagement is crucial, and that surveys and more limited traditional focus-groups sessions are not sufficient or appropriate for determining consumer preferences with respect to complicated subject matter and change.

Business decisions about investment, pricing structure, pricing levels, and discretionary projects that impact upon them, should be grounded in comprehensive, face-to-face deliberative processes that build consumers' capacity to provide genuinely informed indications of their preferences.

2.3 Rebates consistency

The extreme circumstances arising from the response to the COVID-19 pandemic highlights the need to address the inconsistency and potential inadequacy of water rebates and assistance

measures. Assistance to support access to water services essential for household health and wellbeing is crucial.

Households in NSW, regardless where they live or who provides their essential energy services, can rely upon consistent support and assistance through:

- a range of NSW rebates that are applied consistently to all eligible households
- a range of minimum retailer-provided payment assistance measures that are defined and available to all households experiencing payment difficulty
- access to Emergency Account Payment Assistance (EAPA) for when they are unable to pay bills

While Sydney and Hunter Water each have measures to address the needs of their customers, there is no equivalent consistent framework of assistance for NSW households to support their affordable access to essential water services.

PIAC considers it timely to commence a review of assistance and support measures, with a view to recommending reforms that provide more consistent and effective support to all NSW households, and harmonise the structure and quantum of supports with potential pricing reforms that support efficiency and conservation of water use.

Recommendation

PIAC recommends IPART commence a review of the water rebates, supports and assistance measures available to NSW households.

3. Pricing

3.1 Water usage

PIAC accepts the proposal that the water usage charge remains flat and will rise with inflation. However, as outlined previously, we strongly recommend the implementation of a two-part block tariff structure.

3.2 Wastewater

PIAC supports the continued transition of wastewater service charges to a single consistent charge across houses and apartments. However, we highlight that in engagement with Hunter Water, the community has expressed a strong preference for their bills to be based upon their actual usage, to maximise their control of costs. With the reduction in water service charges, wastewater service charges now represent the most significant fixed costs for Hunter Water customers.

This represents an opportunity to empower Hunter Water customers by transitioning recovery of wastewater related costs from fixed charges to usage-based charges. To this end, PIAC reiterates our recommendation that IPART consider reforms to wastewater charging, including:

- Commencing a transition to the recovery of wastewater service costs primarily through usage-based costs.
- Transitioning wastewater usage costs for all customers (residential and non-residential) to a percent discharge factor of their metered water usage. This discharge factor should recognise the different circumstances of apartments and houses.

Recommendation

PIAC recommends wastewater charging structures be consistently applied across all regulated water businesses, with costs recovered primarily through usage charges based on a percentage discharge factor of metered water usage.

3.3 Discretionary spending

PIAC agrees with IPART's decision to approve the discretionary project expenditure proposed by Hunter Water. While there is significant room for Hunter Water to improve its ongoing community engagement, Hunter Water demonstrated consistent community support for the proposed projects and a willingness by consumers to pay the proposed costs. However, PIAC has two concerns with the detail of the cost recovery proposed in the draft determination. Specifically:

- PIAC contends the nature of the customer base for Hunter Water should be considered in context, with non-residential customers included in the recovery of costs related to the approved projects. Hunter Water undertook a process of engagement with the community, focusing on residential customers where a representative and statistically significant group of community members was possible.

PIAC accepts Hunter Water's perspective that a statistically significant and representative consultation of non-residential customers was attempted, but not possible. While PIAC contends this issue can and should be addressed in the future, we do not agree that the absence of specific consultation of non-residential consumers on the issue of discretionary projects and recovery of their costs is a reasonable basis for excluding them from cost recovery. In PIAC's view a representative and statistically significant group of residential consumers should serve as a reasonable proxy for the Hunter Water customer base in this case, given the nature of the projects in question, and the materiality of the charges involved.

- PIAC strongly disagrees with the levying of a separate, fixed 'discretionary' charge as the mechanism for recovery of the costs related to the approved discretionary projects. Where the expenditure is allowed, the projects should be treated as any other approved projects, with their costs rolled into the total recovered through usage prices. We reiterate our concern that a separate charge adds to potential customer confusion regarding its purpose, particularly if it is described as a 'discretionary spending charge' without the context and understanding of the nature of that discretion. Further, where there is no ability to avoid or mitigate this charge, highlighting its source and purpose does not serve any consumer information purpose. Information regarding the nature, make-up and cost recovery of discretionary projects is important, but is more effectively and appropriately reported in annual reports or other specific processes.

While we understand developing a draft framework for the assessment of discretionary expenditure was necessary to consider the proposed projects, PIAC considers it appropriate that this draft framework should be further developed and implemented subject to a dedicated process of stakeholder engagement.

We strongly recommend that IPART initiate a review of the framework and guidelines for discretionary expenditure at the completion of this determination process, to ensure that the process is robust and able to address the needs and concerns of the community and businesses. PIAC would be happy to work with IPART to develop an appropriate process for this.

Recommendation

PIAC recommends costs related to approved discretionary projects be recovered from the entire Hunter Water customer base.

Recommendation

PIAC recommends charges related to approved discretionary spending be treated as any other approved project-related costs, and recovered through usage charges.

Recommendation

PIAC recommends IPART initiate a review of the framework and guidelines for discretionary expenditure at the completion of this determination process.

3.4 Location-based charging

PIAC strongly supports the removal of location-based charging arrangements. We understand, however, that for individual entities it is possible that the cost increase will be substantial. In order to implement the changes fairly, and mitigate any potential impacts on individual entities, we support a transition that results in the full phase-out of location-based charges by 2024-25.

4. Issues IPART is seeking comment on

4.1 Should Hunter Water include a share of wastewater capital costs in trade waste prices?

Where trade waste services are provided utilising the same infrastructure as those for wastewater service provision, they have a direct impact upon the need for maintenance, replacement and augmentation of that infrastructure. PIAC supports a principle of beneficiary or impactor pays, where, if an entity benefits from a service or piece of infrastructure, or impacts upon the costs of its provision, they should contribute to the payment of those costs. Accordingly, we consider it appropriate that trade waste prices should include an appropriate contribution to wastewater capital costs, proportionate to their impact upon it.

4.2 Would setting differential prices between wastewater catchments, based on the LRMC of supply, be a more appropriate basis for setting high strength prices than the current approach, which is based on operating costs only?

While the economic efficiency and accuracy of cost recovery should be an important consideration in the setting of prices, in the delivery of essential water services, consistency and fairness across the community is also vital. Community engagement consistently finds a preference for prices for the same water and wastewater services to be the same across the community, to the greatest degree possible.

We agree that there is merit in wastewater usage charges that incorporate Long Run Marginal Cost (LRMC), however, we do not consider that it is in line with the community expectation for the resulting usage charge to vary according to location. While the LRMC is likely to vary significantly across the different waste water catchments, it may be possible to formulate an average LRMC across the catchments, to derive a single wastewater usage price similar to that for water usage. We accept that this does not provide a completely accurate cost for discharge of each additional unit of wastewater in each catchment, however it does provide a strong price signal that more closely reflects the cost to Hunter Water of wastewater discharge, and so provides a better basis for assessing and implementing the efficiency of recycling and other diversion alternatives.

While IPART should encourage further examination of this for future determinations, it is unlikely to be practical in the timeframes required for this period. PIAC recommends that implementation of this change be considered as part of the comprehensive review of regulatory and pricing structures for all regulated water utilities.

4.3 Should any trade waste price increases be transitioned to avoid negative effects?

PIAC agrees that, where trade waste prices will increase to more fairly include the impact of trade waste upon waste water infrastructure costs, it may be reasonable to smooth the transition to mitigate any negative impacts.