

Additional information

Rebates in Customer Contract

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Purpose of document

This document provides additional information to our response to IPART's Issues Paper about rebates in the Customer Contract.

This document confirms our proposed rebates for inclusion in the next Customer Contract. There are some minor changes to the rebates outlined in our response to IPART's Issues Paper, based on consideration of feedback from Phase 2, some practical constraints and further internal analysis.

We believe the proposed rebates better reflect customer views, feedback and sentiment.

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Rebates

We have now concluded Phase 2 of our 2018 customer engagement program. Both Phase 1 and Phase 2 included discussion of Sydney Water's rebates for not meeting our service commitments.

Rebates are detailed in Section 7.2 of our 2015-2020 Customer Contract. These rebates are not funded from customer bills, but are a loss for Sydney Water.

1 Customer Engagement

1.1 Summary of customer engagement

In Phase 1, we engaged with 472 customers across 6 forums spread geographically throughout our area of operations. There were also 46 customers who participated as part of small group discussions such as customers experiencing financial hardship and culturally and linguistically diverse groups.

Regarding rebates, we outlined the types of rebates we provide without advising the dollar values. Participants were then asked for general feedback on several questions, for e.g. should Sydney Water should continue to offer rebates. In general, while customers were generally unaware that Sydney Water applies rebates, they favoured the continuation of rebates. Customers also strongly preferred rebates to continue to be paid automatically, rather than on application. This was seen as both fairer and easier for customers.

During Phase 1 and Phase 2, business customers noted that they believe they should be entitled to higher rebates than residential customers, due to the impact that a service interruption can have on their business. For rebates linked to service charges, for example, multiple service interruptions, a business customer will receive a higher rebate than a residential customer if they pay a larger service charge. This was noted by some business customers during Phase 2 and supported. We are not proposing any further changes to increase the value of non-residential rebates vs residential rebates, apart from the existing change in value that occurs due to linking some rebates to service charges.

Applying different rebates based on customer types and (potentially) time of day (as not all interruptions would have an impact on business customers) would require significant system modifications that have not been factored in to our current billing system upgrade. Other utilities that offer rebates only offer a flat dollar amount per event, regardless of customer type. Moreover, compensation for loss of business can currently be claimed via the business' insurance. Historically, 93% of rebates have been paid out to residential customers and 7% to non-residential customers (2017-18).

As noted in our submission to the Issues Paper, around two thirds of customers also think Sydney Water should try to find ways of directing rebates to occupants rather than property owners. We are not proposing changes in this area in this review. This is mainly due to lack of information about tenants, as well as system constraints. Sydney Water has property-based billing, in accordance with the *Sydney Water Act 1994*. We do not hold tenant information which would enable us to pass rebates on to tenants. Rather, the property owner is responsible for the bill for the property, and passing on rebates is a matter between the property owner and the tenant.

To ascertain customer priorities, participants at Phase 1 forums undertook a token allocation exercise, allocating 100 tokens to a series of ten events according to the level of rebate they perceived each event should attract.

Events receiving the greatest number of tokens included a ‘boil water alert’ for two days and ‘two wastewater overflows on your property in a 12-month period’. Comments made during table feedback indicated that this was largely due to the perceived health risk and associated inconvenience of such events. Events receiving a lower number of tokens included water interruptions where notice was given and water pressure failures (of both 15 minutes or one hour duration).

1.2 Development of proposed rebates

Following Phase 1, the token allocation results were assessed against the value of our current rebates (see *Figure 1*).

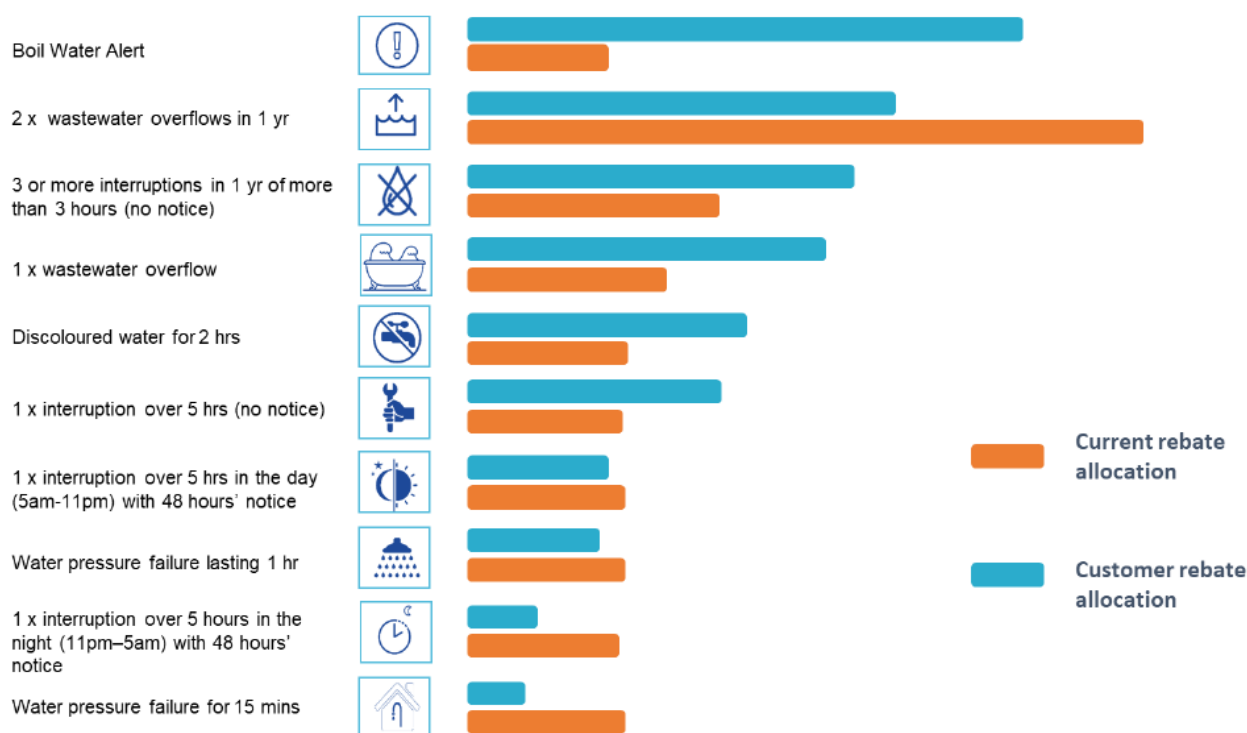


Figure 1 Comparison of customer token allocation and current rebate values

Some events appeared to already be well aligned with the relative level of rebate supported by customers. For others, Sydney Water proposed the following key changes, for further testing with customers in Phase 2:

- rebates for planned water interruptions over five hours were halved, compared to unplanned water interruptions over five hours, to reflect their lower inconvenience to customers
- rebates for wastewater overflows were restructured to a three-tier system. This increased the value for a single event, introduce a new fixed amount for two events (which was still higher than any other rebate value) and pushed out the refund of the wastewater service charge to the third event within a twelve-month period. This better aligned with customer feedback and also the system performance standard for repeat wastewater overflows (which reduces the potential for misaligned performance incentives between rebates and standards)
- rebates for single water pressure failures were replaced with a rebate for three or more water pressure failure events, to reflect the low value placed on single event rebates by

customers but acknowledge that repeat events may be of higher inconvenience (as noted in general feedback from customers regarding service performance in Phase 1).

All other values were also increased by a small amount, largely to account for an increase in CPI (Consumer Price Index).

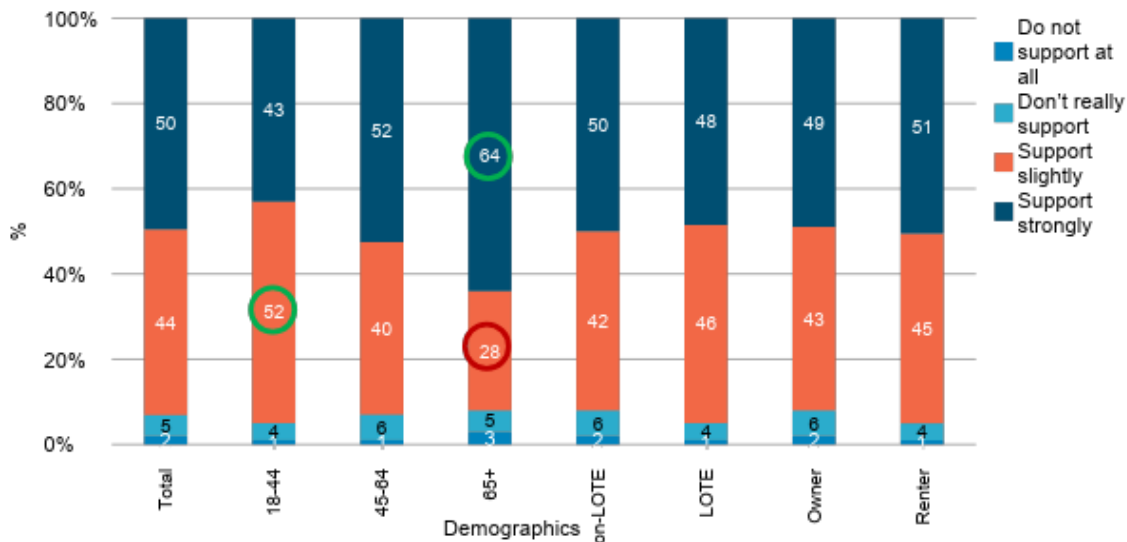
The revised rebates were then presented to customers again in Phase 2 forums and discussion groups, for validation. It was noted in Phase 2 that the changes had been made as a package, with some increases and some decreases in values. It was also noted again that rebates are not funded through customer bills.

1.3 Outcomes of Phase 2 and further analysis

Overall, there was a high level of support for Sydney Water’s proposed changes to rebates. Half of all forum participants ‘strongly supported’ the changes overall, with a further 44% indicating that they ‘slightly supported’ the changes. The level of support for each of the individual rebates is noted below.

On the whole, it was noted positively by participants that Sydney Water was attempting to reflect the results from the token exercise conducted in the first phase. There were only a few comments made by participants who felt the results did not reflect the customer priorities or preferences from Phase 1, usually in response to a rebate for an individual event.

There were no significant differences in acceptance by age, Language other than English (LOTE) or housing situation. *Figure 2* shows a breakdown of support for the proposed overall package by demographic.



To what extent do you support the changes to the rebates as an overall package?

Base: All respondents n=529; 18-24 (n=74), 25-44 (n=171), 45-64 (n=171), 65+ (n=113), Non-LOTE (n=412), LOTE (n=117), Owner (n=386), Renter (n=139)

Figure 2 Support for rebates as an overall package

Feedback on specific events and further analysis by Sydney Water is noted below.

1.3.1 Planned water interruption

Current rebate value - \$35 Proposed rebate value - \$20

This rebate was paid to 12,241 customers in the 2017-18 financial year.

This rebate is provided for planned interruptions to water supply that last more than five hours, where notice was provided. Sydney Water gives at least two days' notice for residential customers and at least seven days' notice to non-residential customers for planned interruptions.

In Phase 2, on average, 83% of forum participants supported the change to reduce the value of rebates for this event. A comment from the Hurstville forum was, "It's fair. If they give you a heads-up, then why worry because you can plan around it."

The average annual value of rebates for this event paid from 2013-14 to 2016-17 was \$640,586. This amount would reduce to around \$325,375 under the proposed rebate.

1.3.2 Unplanned water interruption

Current rebate value - \$35 Proposed rebate value - \$40

This rebate was paid to 46,062 customers in the 2017-18 financial year.

This rebate is provided for unplanned interruptions to water supply that last more than five hours, where notice is not provided.

In Phase 2, on average, 87% of forum participants supported the proposed rebate. In discussion groups with small to medium businesses, a rebate according to meter size was suggested for this type of event to provide recognition of the scale of impact for those with larger meter sizes, hence a greater reliance on water. The importance of communication for these types of customers was also noted.

Sydney Water is not proposing to move from a flat, fixed amount for all customers for this rebate, due to system constraints and other considerations noted above. However, we are seeking to improve communication businesses about where to obtain alternative water supply, as part of our new Customer Hub. The Customer Hub introduces new ways of working which will have positive changes for customers. Customers will begin to experience a more proactive and customer centric approach when they interact with Sydney Water.

1.3.3 Water pressure failure

Current rebate value - \$35 once per quarter Proposed rebate value - \$40 once per quarter

This rebate was paid to 127 customers in the 2017-18 financial year.

This rebate is currently provided when the minimum drinking water pressure requirement for the property, 15 metres head of pressure, is not met for a sustained period of 15 minutes or more. The rebate is paid for one event per quarter.

We originally proposed a more significant change to this rebate based on feedback from Phase 1. This type of event was valued as the lowest of all events, with many customers remarking it could be removed altogether. However, they were not asked about repeat water pressure failures.

Repeat events were noted as highly inconvenient during forums and in survey responses regarding service performance in Phase 1. As such, our initial proposal was to move to a repeat event rebate for water pressure failures. We proposed that a repeat event rebate would be equivalent to the

annual service charge. This would acknowledge that even though the event may be of low inconvenience as a one-off, it would be more inconvenient if experienced repeatedly.

In Phase 2, while still supported overall (76% indicating they 'strongly supported' or 'slightly supported' the changes, this proposed change received the lowest level of support compared to other events, particularly for 'strongly support' (45%). Forum feedback indicated concerns were linked to moving to a nil rebate for one-off events. Qualitative feedback provided by some small to medium business owners in Phase 2 also suggested they would prefer the rebate to remain quarterly. These customers felt that this rebate was less about the value of the rebate and more about Sydney Water being held to account and visibly acknowledging the lack of service to these customers.

In addition, this change would involve significant structural changes to our billing and reporting systems to implement. We estimate this would cost around \$300,000 to implement. Upon further consideration, and given the lower level of support for this change in Phase 2, we are proposing not to make this change. We do not feel this is cost effective, given the small number of affected properties per year. Around 130 low water pressure rebates were paid in 2017-18, which is consistent with numbers for previous years.

Instead, we are proposing to retain a rebate for individual water pressure failures, paid once per quarter. In line with our change to other rebates, we are proposing to increase the value of this rebate from \$35 to \$40 per event. The rebate will continue to be paid for one water pressure failure event per quarter.

We recommend that the duration of the water pressure failure event for rebates be made consistent with the duration adopted for either the water pressure failure system performance standard (if retained) or reporting indicator. At the moment, we have retained 15 minutes in our proposed wording for the Customer Contract.

1.3.4 Wastewater overflow

Current rebate value - \$60 Proposed rebate value - \$75

This rebate was paid to 14,338 customers in the 2017-18 financial year.

This rebate is provided for one-off wastewater overflows onto private properties that occur because of a fault within Sydney Water's wastewater system. Feedback from all groups in Phase 1 indicated that the current rebate value was lower than customers expected, relative to other events. In Phase 2, on average, 84% of forum participants supported this change. Small and medium business participants also generally supported the changes to these rebates.

The average annual value of rebates paid from 2013-14 to 2016-17 was \$951,746. This would increase to around \$1,075,350 under the proposed rebate.

1.3.5 Dirty Water

Current rebate value - \$35 Proposed rebate value - \$40

This rebate was paid to 4,349 customers in the 2017-18 financial year.

A dirty water event can occur when Sydney Water undertake repair work on pipes that stirs up sediment which then enters the customer's private plumbing. This can make the water discoloured. The duration of these events is usually a lot shorter than a water service interruption over five hours. Typically, these issues can be fixed by turning the back garden tap on for around five minutes to flush the pipe. A dirty water event is different to a boil water alert. A boil water alert is when NSW Health declares a water quality incident because the water is unsafe to drink.

In Phase 2, on average, 82% of customers supported the proposed rebate for this event. Qualitative feedback from participants in the Arabic and Greek speaking groups and the financial hardship groups noted that the proposed change to the rebate in the event of discoloured water was fair.

There was some concern raised by a small to medium business participant who remarked, “A restaurant can’t serve discoloured water even if it is theoretically safe. You also couldn’t serve it to staff so you’d have to get bottled water in. That is not going to cover it.” While we understand this sentiment, we note again that compensation for loss of business can currently be claimed via the business’ insurance. This type of approach (linking rebates to an assessment of impact) would also have a high administrative cost.

1.3.6 Boil Water alert

Current rebate value - \$35 Proposed rebate value - \$50

No rebates for this event were paid in 2017-18. There have only been two instances of NSW Health issuing a Boil Water Alert in the last twenty years.

This event was rated as most deserving of a rebate in the Phase 1 token exercise. The proposed increase is the highest percentage increase for any rebate proposed by Sydney Water. Due to the nature of these events, the value of this rebate has a significant financial impact on Sydney Water, in the very rare case that a boil water alert may occur.

In Phase 2, on average, 86% of customers supported the proposed rebate for this event. There was a general understanding that it would be impractical for this amount to be increased further because of the large financial repercussions it could have on Sydney Water (depending on the catchment area affected). It was also noted that a boil water alert was not necessarily a fault of Sydney Water’s directly and therefore it was more a courtesy for them to be giving a rebate for this event.

We have proposed a minor wording amendment to clarify that only one rebate would apply during a water quality incident, even if NSW Health issues more than one ‘boil water alert’. This is the intention of the current wording.

1.3.7 Repeat unplanned water interruption

Current rebate value – annual water service charge, less concessions

Proposed rebate value – annual water service charge, less concessions

This rebate was paid to 16,922 customers in the 2017-18 financial year.

We are not proposing any change to this rebate. It will remain as a credit for the annual water service charges for the property, less concessions, applied after a customer experiences three or more unplanned water interruptions, that last longer than one hour, within a 12-month period.

Discussion in the small to medium business groups particularly supported this rebate, as it is relative to the meter size.

1.3.8 Repeat wastewater overflows

Current rebate value – annual wastewater service charge, less concessions after second event

Proposed rebate value – \$150 for second wastewater overflow, then annual service charge, less concessions, for three or more wastewater overflow events in a 12-month period

The rebate for two or more overflows was paid to 2,535 customers in the 2017-18 financial year. There were 50 properties that experienced three overflows in the 2017-18 financial year.

We are proposing a new approach to this rebate. In Phase 1, customers advised that wastewater overflows were among the most inconvenient events and deserved higher rebates than other events. However, when compared against other rebate values, the current value (linked to the service charge) was higher than that allocated by customers in the token exercise.

We are proposing a staged approach where the customer receives a second rebate of \$150 (double the value of a single event rebate), then receives the annual service charge as a rebate upon the third event.

No further rebates would be paid in the 12-month period from the first event, as currently occurs. This would still see repeat wastewater overflows attract the highest rebate values, while bringing these values more in line with customer expectations. It also better aligns the rebates with our system performance standard for repeat wastewater overflows, which is based on three events, not two.

In Phase 2, the proposed approach received support from, on average, 84% of forum participants. It also received high support from small to medium size business owners. Some participants from language other than English groups suggested that Sydney Water should carry out an inspection of the event and that the rebate amount should be set accordingly, rather than offer a fixed rebate amount. We would again reiterate that claims for damages are assessed via a separate process. This type of approach would also have a high establishment and ongoing administrative cost.

The average value of rebates paid from 2013-14 to 2016-17 was \$1,251,492. This would reduce to around \$410,250 under the proposed rebate (this does not include rebates paid for single wastewater overflow events, which would increase, as noted above).

1.4 Overview of proposed rebates

An overview of our proposed revised rebates and values is noted in the table below.

Event	Existing rebate	Proposed rebate	Reason
<i>Planned interruption > five hours</i>	\$35	\$20	Halved to reflect less inconvenience of a planned interruption compared to an unplanned, due to notice provided to the customer
<i>Unplanned interruption > five hours</i>	\$35	\$40	Increased by \$5 Customers indicated lengthy unplanned water interruptions to be a highly inconvenient event
<i>Repeat unplanned interruptions > one hour (in a 12-month period)</i>	Water service charge, paid after 3 events	Water service charge, paid after 3 events About \$80 for residential	Maintained as refund of service charge

	varies for non-residential	Varies for non-residential	Customers indicated support for rebates for repeat events, which were rated as much more inconvenient than one-off events
<i>Wastewater overflow onto private property</i>	\$60	\$75	Value increased by \$15 to reflect customer sentiment. The value is now nearly twice that of an unplanned water interruption rebate
<i>Repeat wastewater overflows onto private property (in a 12-month period)</i>	Wastewater service charge, paid after 2 events varies for non-residential	Increasing rebate on sliding scale: 2 events - \$150 3 or more events – wastewater service charge About \$600 for residential Varies for non-residential	Values adjusted so that a second overflow is twice the amount of a single overflow Full service charge is now refunded after 3 or more events in a rolling 12-month period. This aligns with relative values indicated by customers (in terms of two wastewater overflows compared to three unplanned water interruptions) In total, customers experiencing three or more overflows will get a greater cumulative rebate.
<i>Water pressure failure > fifteen minutes (excludes operational-related failures, eg due to main breaks)</i>	\$35 (paid once per quarter)	\$40 (paid once per quarter)	Increased by \$5 We originally proposed a more significant change to this rebate based on feedback from Phase 1. However, this change would involve significant structural changes to our billing and reporting systems to implement Therefore, we are proposing to retain the rebate for individual water pressure failures, paid once per quarter. We recommend the duration of the event should be aligned with the system performance standard (if retained).

<i>Dirty water event (usually due to sediment in pipes after maintenance)</i>	\$35	\$40	Increased by \$5 There was some customer sentiment in qualitative feedback that this should increase; however, in the ranking exercise this event rated as roughly the same value as an unplanned water interruption.
<i>Boil water alert/s issued by NSW Health for water quality incident (one rebate per incident)</i>	\$35	\$50	Increased to reflect customer sentiment and potential duration Customers rated this event very highly. Due to the nature of these types of events, the value of this rebate has a significant financial impact on Sydney Water, in the very rare case that a boil water alert may occur.

1.5 Proposed wording for Customer Contract

Our proposed wording for Section 7 of the Customer Contract is as below. This includes our proposed rebate values and some minor wording changes for clarification. We will provide an updated tracked changes version of the Customer Contract when responding to Request for Information 4 (Customer Contract).

7.2 Rebates

Information on rebates provided under this contract is set out in our 'allowances and rebates on your bill' policy, which may be amended from time to time. This is available on our website or in hard copy by request.

If you are a **customer**, you are entitled to a rebate for an occurrence of the following:

- **Planned interruption**

Where your **water supply service** is interrupted for over five hours by a **planned interruption** you are entitled to an automatic rebate of \$20. You are eligible for this rebate for each and every event of this type that you experience.

- **Unplanned interruption**

Where your **water supply** is interrupted for over five hours by an **unplanned interruption** you are entitled to an automatic rebate of \$40 for each of up to two **unplanned interruption** events. If you experience three or more **unplanned interruptions** that last more than one hour in a 12-month period the rebate outlined in clause 7.3 will apply.

- Low water pressure

Where your **drinking water** pressure is below 15 metres head of pressure at the **point of connection** to our **water system** for a continuous period of 15 minutes, unless as a result of a supply interruption, you are entitled to a rebate of \$40. This rebate is payable for one event each quarter. A rebate will be granted automatically when this is identified through our monitoring.

- **Wastewater overflow**

If you experience a **wastewater overflow** on your **property** due to a failure of our **wastewater system**, you are entitled to a rebate of \$75. If you experience two or more **wastewater overflow** events in a 12-month period, the rebate outlined in clause 7.4 will apply.

- Dirty water

If we do not provide you with clean water suitable for normal domestic purposes, you may be entitled to a rebate of \$40 for each occasion that we do not provide you with clean water suitable for normal domestic purposes.

If the cause of the problem is identified in **your water system** the rebate will not apply.

- Boil water incidents

If NSW Health issues 'boil water alerts' due to contamination of **drinking water** caused by us, you are entitled to a rebate of \$50 for each incident in relation to which the 'boil water alert/s' is/are issued.

We will pay the rebate in your next bill where possible.

7.3 Rebates for recurring *unplanned water interruptions*

If you are a **customer** and experience three or more **unplanned water interruption** events to your **property** that last for over one hour in a rolling 12-month period, you are entitled to a rebate equal to the whole annual water service charge, less any concessions available to you, after the third event.

7.4 Rebates for recurring *wastewater service disruption or internal wastewater overflows*

If you are a **customer** and experience two **wastewater service** disruptions or internal **wastewater overflows** on your **property** in a rolling 12-month period due to a failure of our **wastewater system**, you will be entitled to a rebate of \$150.

If you are a **customer** and experience three or more **wastewater service** disruptions or internal **wastewater overflows** on your **property** in a rolling 12-month period due to a failure of our **wastewater system**, you will be entitled to a rebate equal to the whole annual **wastewater service** charge, less any concessions available to you, after the third event.

