

IPART

NCOSS Response to Draft Determinations for Sydney & Hunter Water Corporations

April 2016

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About NCOSS

The NSW Council of Social Service (NCOSS) works with and for people experiencing poverty and disadvantage to see positive change in our communities.

When rates of poverty and inequality are low, everyone in NSW benefits. With 80 years of knowledge and experience informing our vision, NCOSS is uniquely placed to bring together civil society to work with government and business to ensure communities in NSW are strong for everyone.

As the peak body for health and community services in NSW we support the sector to deliver innovative services that grow and evolve as needs and circumstances evolve.

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Introduction

NCOSS welcomes the opportunity to respond to IPART's draft determinations on Sydney and Hunter Water prices and regulations for the period 1 July 2016 – 30 June 2020. Water is a critical basic necessity and those who are vulnerable will suffer both financially and through inhibited access if it becomes unaffordable. For these reasons, NCOSS uses this submission to advocate for targeted action to reduce the impact of price changes for people who do not have the resources to absorb them without constraining their access to water.

Considering the concurrent nature of these determinations, the commonality of many of the issues involved, and reflecting IPART's move towards consistency of treatment of Sydney and Hunter Water, NCOSS will comment on both draft determinations in this submission.

We have focused our response on areas that have direct impact on our key stakeholders.

Overview

NCOSS is broadly supportive of IPART's determination to move towards greater consistency between the regulatory treatment of Hunter and Sydney Water, including the move to concurrent determination periods, and welcomes IPART's ongoing focus on ensuring the reliability and affordability of water services through measures to maximise efficiency. In general, NCOSS is keen to see this application of greater consistency and transparency furthered over this and subsequent determinations, to ensure that customers in these regions are served more equitably. Accordingly, NCOSS has made a number of specific recommendations aimed at enhancing consistency, clarity and equity in the provision of services by Sydney and Hunter Water, and ensuring that there are strong protections for the most vulnerable in these communities.

Elements specific to Sydney Water Determination

NCOSS generally supports the IPART determination for Sydney Water, and welcomes the reductions in customer bills. We are particularly pleased to note that the proposed changes will result in bill reductions over the period for eligible pensioners.

Elements specific to Hunter Water Determination

NCOSS notes that a factor driving the increase in projected customer bills in IPART's Hunter Water price determination is the reduction in the assumed lifespan of Hunter Water assets (rebased from 70 years for old infrastructure and 100 years for new infrastructure, to 62 and 67 accordingly), and the \$25 million increase in the assessment of Hunter Water's efficient costs. While NCOSS understands the rationale behind these changes, and supports a regime based on a thorough and accurate assessment of the efficient, sustainable life of assets, we believe that such a significant shift within the span of a single determination period potentially places an unreasonable burden on customers as a result.

In the context of concurrent determinations, and increasing consistency in regulatory treatment of Hunter and Sydney Water, the rise in prices for residential customers of Hunter Water in this determination period, widens the gap between the average costs for customers of Hunter Water and equivalent Sydney Water customers, who are seeing reductions in their bills. Accordingly, NCOSS supports PIAC's¹ view that the transition to shorter asset lives be smoothed over two determination periods, with a detailed analysis of the methodology used for the longer term calculation of asset lives being undertaken.

Recommendation 1

The transition to shorter assumed infrastructure and asset lives for the purposes of depreciation, be 'smoothed out' and undertaken over 2 determination periods to reduce its impact on Hunter Water customers. As part of this process, IPART conduct or commission a more detailed analysis of the methodology used to calculate Hunter Water asset lives

Hardship assistance and protections for vulnerable customers

NCOSS is concerned about the implications that the Hunter Water draft determination will have on the average residential bill, and the very real potential that the price rises they result in, will have a negative impact upon customers who are already financially vulnerable. In announcing the launch of the Payment Assistance Program last year, Hunter Water Managing Director, Kim Wood, made reference to the worrying increase in unemployment (from 5.8 – 9.0%)², acknowledged the serious and increasing financial distress prevalent in the region, and recognized the important role that Hunter Water can play in helping to alleviate this. While NCOSS welcomes the improvements to protections offered by Hunter Water to customers in hardship³, through adoption of the use of Centrepay and the implementation of a new Accounts Assistance policy, NCOSS believes that there is a need to extend support of financially vulnerable customers beyond those who are already picked up by hardship assistance measures.

NCOSS would like to see Hunter Water implement more structured measures to consult on, evaluate and improve their hardship and assistance measures, on a yearly basis in order to ensure they are meeting emerging and long-standing needs in the region. We believe such measures should improve clarity regarding how many customers are in financial distress, paying late, and utilising Hunter Water's Centrepay and Assistance measures. This would also facilitate better monitoring of relative change, and the effectiveness of Hunter Waters' responses. NCOSS recommends that such measures, potentially evaluated as part of IPART's annual Operational Audit of Hunter Water, would help to improve the accountability of Hunter Water to its customers, help inform their assistance to customers in financial distress, and work to improve their responsiveness to those who are financially vulnerable.

¹ PIAC *The price is right? Response to IPART Draft Determinations for both Sydney Water and Hunter Water*. 18 April 2016, p 3.

² Hunter Water <http://hunterwater.com.au/About-Us/Latest-News/2015/Hunter-Water-Launches-Payment-Assistance-Scheme.aspx>

³ Ibid

Recommendation 2

That Hunter Water undertake more structured monitoring of customers in financial distress, how their own responses are operating, how effective they are at reaching those that need them and make necessary changes to ensure best practice. These measures should be evaluated as part of IPART’s annual operational audits.

Pensioner rebates

NCOSS is particularly concerned about the implications for pensioners, and notes that the proposed determination will see the average bills of pensioners who are customers of Hunter Water,⁴ rise to be nearly double those of equivalent Sydney Water⁵ customers. With IPART implementing a more consistent approach in the regulatory treatment of Sydney and Hunter Water generally, it is a serious concern that Hunter Water residential customers, particularly eligible pensioners, are significantly disadvantaged when compared to similar Sydney Water customers.

We see a need for greater consistency in the way that concessions are calculated. Where the Sydney Water concession scheme for eligible pensioners is clearly structured, easily understood and consistent, the equivalent rebate for Hunter Water is seemingly more arbitrary and opaque. Although improved by recent changes that increase the rebate yearly, the indicative Hunter Water concession rebate (including Environmental Improvement Charge waiver) is still only proposed to be \$315 in 2015/16.⁶

While, this amount represents an increase on previous years, linked to rises in water and sewage charges, it is unclear how this amount is actually calculated. NCOSS suggests that this rebate is not only inadequate, but also results from an inconsistent approach that significantly and unreasonably disadvantages eligible pensioner customers of Hunter Water. In contrast, the tables below demonstrate how a more consistent and transparent structure of concessions, in line with those offered by Sydney Water, would work.

Table 1: Proposed rebates applicable to eligible Pensioner customers of Hunter Water, in freestanding homes based upon consistency with Sydney Water

Charge	Average fixed charges on freestanding house bill Hunter Water 2015/16	Sydney Water Pensioner Concession	Proposed rebate that would apply using an approach consistent with Sydney Water
Water Service	\$17.75	100%	\$17.75
Sewer/ Waste Water Service	\$593.58	83%	\$492.67
Stormwater	\$71.86	50%	\$35.93
Total	\$683.19		\$546.35

⁴ IPART *Review of prices for Hunter Water Corporation. From 1 July 2016 to 30 June 2020. Water – Draft Report. 2016, p 144-45.*

⁵ Ibid, p 181.

⁶ Hunter Water *Price Submission to IPART, our prices to apply from 1 July 2016. 2015, p 98.*

Table 2: Proposed rebates applicable to eligible Pensioner customers of Hunter Water, in strata units, based upon consistency with Sydney Water

Charge	Average fixed charges on strata unit bill Hunter Water 2015/16	Sydney Water Pensioner Concession	Proposed rebate that would apply using an approach consistent with Sydney Water
Water Service	\$17.75	100%	\$17.75
Sewer/ Waste Water Service	\$430.35	83%	\$357.19
Stormwater	\$26.59	50%	\$13.29
Total	\$474.69		\$388.23

Recommendation 3

That Hunter Water implement a concession scheme for eligible pensioners that is transparently structured, and consistent with the calculation methodology applied by Sydney Water.

Elements common to Sydney Water and Hunter Water

Recognition of Rental Tenants

As financially vulnerable and disadvantaged customers are often more heavily represented in rental households, NCOSS is concerned that the benefits of any efficiency improvements may not necessarily be equitably available to the disadvantaged and vulnerable customers who need them most. Additionally, while Payment Assistance Schemes (PAS) are available to private tenants who are responsible for paying for their water usage, we believe that there is a need for further, detailed work regarding rental tenants to be done to understand:

- whether landlords increase rent to cover growing utility costs;
- the financial impact of water costs on tenants;
- whether tenants and landlords understand their rights and liabilities in regard to water bills; and
- whether tenants are aware of assistance available to them.

NCOSS understands that tenants, particularly those who are disadvantaged or vulnerable, are less likely to be aware of their rights and the conditions of their water service in relation to their rental tenancy. NCOSS recommends that Sydney and Hunter Water further consult with the Tenants Union, emergency assistance providers, and their customer and stakeholder groups regarding the experience of tenants, the terms of their tenancy, how their water services are billed, and how best to structure, implement and promote their Payment Assistance Schemes to renters.

Recommendation 4

That Hunter and Sydney Water be required to undertake more detailed consultation with the Tenants Union, emergency assistance organisations and their Customer Councils to examine the experience of tenants with regard to:

- whether landlords increase rent to cover growing utility costs;
- the financial impact of water costs on tenants;
- whether tenants and landlords understand their rights and liabilities in regard to water bills; and
- whether tenants are aware of assistance available to them.

We recommend that these measures be reported on as part of IPART's annual operation audit review.

Pricing Flexibility

NCOSS supports IPART's decision to limit flexible or unregulated pricing to large non-residential customers, as determined by the criteria outlined in the report.⁷ NCOSS agrees with PIAC and EWON,⁸ that the implementation of additional pricing flexibility is not warranted until reliable, advanced metering is widely and cheaply available for Sydney and Hunter Water customers. Further, such changes should only be considered subject to extensive modelling and community consultation and the inclusion of assured protections against further disadvantaging potentially vulnerable customers.

Establishment of an Efficiency Carryover Mechanism (ECM) for controllable operating expenditure 2016-2020.

NCOSS supports this measure and the proposal that it be applied asymmetrically. We believe that this strikes an appropriate balance, encouraging Sydney Water and Hunter Water to implement measures for permanent efficiencies at all points of the determination period. NCOSS also supports the recommendation that the businesses retain any temporary over and under spends as an appropriately balanced measure.

However, NCOSS would like to support the PIAC recommendation⁹ that the next determinations for Sydney and Hunter Water, include a review of the operation of the ECM to ensure that it is resulting in the efficiencies intended.

Cost pass-throughs

NCOSS supports the IPART decision not to allow general cost pass-throughs. NCOSS agrees that it is sufficient and appropriate, to continue to consider cost pass-throughs on a case-by-case basis, only in exceptional circumstances, and according to the limitations specified in the associated criteria.¹⁰

Dishonoured & Late Payment fees

NCOSS agrees that there should be mechanisms for Sydney and Hunter Water to recover the costs incurred through late or dishonoured payment, and that the proposed scale of fees is currently appropriate and proportionate to the charges of comparable service providers. NCOSS supports Sydney Water's measures to protect vulnerable customers in hardship programs from additional fees, where those customers are honouring negotiated payment arrangements as clearly outlined in Sydney Water's Customer Contract.¹¹

⁷ IPART, *Review of prices for Sydney Water Corporation. From 1 July 2016 to 30 June 2020*. Water – Draft Report. 2016, p 29-35.

⁸ EWON, *Submission to Sydney Water Corporation Price review 2016, 2015*, p 1.

⁹ PIAC, *The price is right? Response to IPART Draft Determinations for both Sydney Water and Hunter Water*. 18 April 2016, p 4.

¹⁰ IPART *Review of prices for Sydney Water Corporation. From 1 July 2016 to 30 June 2020*. Water – Draft Report. 2016, p43

Given, the push for consistency across these two major state-owned water providers, NCOSS recommends that Hunter Water also extend this protection to its customers who are experiencing hardship.

Recommendation 5

That Hunter Water adopt measures consistent with Sydney Water, to protect customers in hardship from additional fees.

Bill Structure and Terminology

NCOSS agrees that the use of 'service charge', by Hunter Water and Sydney Water, may not accurately and clearly convey to customers what the charge is related to. As bill clarity is consistently identified as a key preference for customers, NCOSS agrees that the terminology should be changed to more clearly reflect what the charge is related to. NCOSS recommends that both Sydney Water and Hunter Water undertake further consultation to determine what terminology most clearly enables customer understanding of the purpose of the charge.

Conclusion

NCOSS is grateful for the opportunity to comment on the determinations for Sydney and Hunter Water, and looks forward to being involved in the implementation of the regulatory changes outlined in this determination, and working with IPART to help ensure that our essential water services are delivered fairly, particularly to the most disadvantaged and vulnerable in our community.

¹¹ http://www.sydneywater.com.au/web/groups/publicwebcontent/documents/webasset/zgrf/mdc0/~edisp/dd_074203.pdf