REVIEW OF PRICES FOR WATER, SEWERAGE, STORMWATER DRAINAGE AND OTHER SERVICES FOR HUNTER WATER CORPORATION

SUBMISSION BY TOTAL ENVIRONMENT CENTRE TO THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL

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INTRODUCTION

Total Environment Centre (TEC) welcomes the opportunity to contribute to the Independent Pricing and Regulatory Tribunal (IPART) review of prices for water, wastewater, stormwater drainage and other services for Hunter Water Corporation (HWC).

TEC believes that providing strong water conservation signals and giving customers' greater control over their water bills should be a fundamental consideration in determining water prices. To this end TEC strongly supports reducing the levels of fixed prices in favour of greater reliance on usage charges.

TEC is strongly opposed to the continuation of HWC's 'location based' prices which provide discounts for certain large industrial customers and undermines the use of recycled water for industrial applications.

TEC also believes that sewer usage charges should be re-introduced for residential customers. Fixed sewerage charges introduced in the last price period diminish resource conservation signals, and do not reflect the fact that environmental costs of disposing of sewage are related to volumes of effluent and reduce customers' control over their bills.

Detailed comments on these matters and other issues raised in the Tribunal's discussion paper (IPART, 2012) follow.

PRICE DETERMINATION

Length of the determination period

TEC believes that a four year determination period provides an appropriate balance between certainty (to both customers and Hunter Water) and limiting delays in introducing necessary pricing reforms.

TEC acknowledges that there may be benefits in aligning price determination periods with review of the operating licence. We caution, however, that conducting reviews concurrently may place severe burdens on the resources of individuals and community organisations and limit their capacity to contribute to all reviews. We urge the Tribunal to ensure that, if reviews are conducted concurrently or within a short period of one another, that ample time be provide for groups with limited resources to review all relevant material and contribute submissions to the review process.

In view of the existence of the connection between HWC and Gosford/Wyong Councils' water supply systems and the trading of water between them, TEC sees merit in maintaining the current alignment in the price paths for both utilities. We again caution, however, that concurrent reviews can place burdens on resources of some participants.

TEC has experienced difficulty in meeting the deadlines of both the Hunter Water and Gosford/Wyong price reviews currently underway.

Revenue requirements & capital expenditure

TEC welcomes HWC's proposed capital expenditure on development of recycled water infrastructure and upgrades to wastewater treatment facilities (HWC, 2012). In our submission to the last price review (TEC, 2008) we expressed concern, that despite planned upgrades to coastal sewerage treatment plants HWC would continue the practice of discharging sewage sludge to the ocean. It is unclear from HWC's submission whether the proposed upgrades eliminate disposal of sludge into the ocean. We urge the Tribunal to closely scrutinise HWC's proposed expenditure in this area and to insist that the Corporation identify and adopt sustainable approaches to the management of sewerage sludge.

TEC also welcomes HWC's investigation of Lower Throsby Creek rehabilitation requirements and the potential for channel naturalisation (HWC, 2012). TEC believes that stormwater management should look beyond the traditional approach of constructing and maintaining canals while treating stormwater as a waste product. In determining the prudence of proposed stormwater expenditure and thus revenue requirements we urge the Tribunal to ensure to take into account the benefits of channel naturalisation for improved stormwater quality.

Forecasting water sales

TEC believes that current methods for forecasting water sales embed unsustainable water management practices. In particular, there has been inadequate attention to demand management by Hunter Water and the NSW Government. While we acknowledge that water sales were lower than forecast in 2009 determination (HWC, 2012) there remains considerable scope for demand reductions. It should be noted that Hunter Water supplies a number of large industrial and commercial users. Despite this there is no requirement for such users to develop and implement Water Savings Plans, as is the case in the Sydney Water Corporation and Gosford/Wyong Councils areas of operation.

Hunter Water's submission to the Tribunal also shows a disturbing lack of detail on demand management. TEC strongly believe that permanent water savings rules should be introduced as a demand management measure in the Hunter. Such rules should be modelled on those introduced in Sydney and those in place in Melbourne and Adelaide. This would include bans on hosing of hard surfaces and mandatory use of trigger hoses for car washing.

TEC also recommends relaxing security of supply criteria to ensure that higher level restrictions are introduced earlier (i.e. at higher storage levels). Imposing restrictions to deal with drought scarcity is a more sustainable and economically responsible response than attempting to create a 'drought proof' supply that will ensure that higher level restrictions are never or rarely introduced. We note the comment in the draft Gosford and

Wyong Councils' WaterPlan 2050 strategy that "in most instances, demand management actions have proven to be more cost effective than increasing supply" (Gosford-Wyong Councils' Water Authority, 2006). We concur with this view and strongly recommend that restrictions be viewed as a logical and responsible response to drought scarcity and a means of preventing unsustainable and expensive supply augmentation.

Price structures and price levels

TEC supports the use of a two part tariff approach for HWC water and wastewater charges. We are concerned, however, by the reliance on a high level of fixed charges. While we welcome HWC's proposal to increase usage prices while reducing the proportion of revenue recovered from fixed charges, HWC's proposal would maintain a very high fixed charge component. High levels of fixed charges reduce resource conservation signals to customers and diminish customers' ability to control the size of their bills. Increasing the usage charges while reducing fixed charges would provide stronger incentives to customers to reduce consumption and invest in measures such as rainwater tanks and more efficient appliances. We note that HWC customer consultation revealed that three-quarters of customers wanted more control over their bill through the water usage price (HWC, 2012)

In previous submissions to the Tribunal TEC has strongly advocated the introduction of inclining block pricing and a reduction in fixed charges for metropolitan water agencies to provide a clear signal to customers of the need to reduce water use to sustainable levels. In particular we welcome the potential of second tier prices to target discretionary water use and hence provide a strong incentive for high volume users to moderate non-essential water use. TEC strongly believes that the inclining block tariff model and a reduction in fixed charges should be applied to prices for HWC. The step point should be chosen to target discretionary water use.

TEC urges the Tribunal to abolish HWC's 'location-based' prices that provide a discount to selected large volume industrial customers. TEC has consistently opposed this approach and sees no merit in maintaining this system. Reducing prices for large users diminishes the resource conservation signal conveyed by usage charges, thus undermining demand management. Further, this pricing system reduces incentives for large volume users to adopt effluent reuse. It is essential that large volume users be actively encouraged to adopt reuse to reduce demand on potable supplies and ensure the long term viability of effluent reuse.

It is telling to note the comments in HWC submissions to both this review and the 2008 review that:

> "In the second half of the 1990s, the Corporation observed the new competition regimes developing in other utility sectors, such as electricity and telecommunications, and the potential for similar competition in the water industry.
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> Competition in these other sectors led to significant price restructuring, especially for large-volume users, with prices under competition more closely reflecting the actual cost of supply to a specific location or business. In many cases, these prices came

> about as a result of access arrangements or by utilities responding to the threat of access or competition and offering more cost-reflective pricing under contract. In the other sectors, these new price regimes were increasingly replacing the conventional uniform, or postage-stamp, prices. Hunter Water could see that various competition mechanisms, such as access regimes, could easily be applied to water supply in the lower Hunter region with similar results" (HWC, 2008; 2012).

It is clear from these statements that Hunter Water's 'location-based' charges are designed to undercut recycled water as a source of supply for large industrial customers.

We note HWC's comment that:

> "…some stakeholders have argued in successive price reviews that offering the lower location-based price to eligible large-volume users erodes the demand management price signal.
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> Hunter Water believes that offering these lower prices to the large-user customer set does not erode the demand management signal. The location-based prices are volumetric charges and the customers that can take advantage of them are very large users, so efficient water use is already an important consideration for these businesses in managing their costs" (HWC, 2012).

TEC rejects this argument as HWC are not describing a level playing field. The fact that these customers are very large water users ensures that decisions on whether to invest in more efficient production process or switch to recycled water will be directly influenced by the costs of these options relative to the savings obtained by reducing potable water use. Providing discounts for large volume customers directly impacts on the cost effectiveness of adopting water efficiencies or switching to other sources of water such as recycling - a fact HWC acknowledges in their submission.

Wastewater charges

In previous price reviews TEC has strongly supported HWC's usage charges for sewerage services. We were dismayed that these charges were abolished for residential customers in the last price review. We note that customer feedback to HWC about these changes has been generally negative with customers concerned about a reduced ability to control their bills (HWC, 2012).

TEC sees no reason why sewerage usage charges should not be applied to both residential and non-residential customers. Large fixed charges for sewerage services significantly reduce the control that customers can exercise over the size of their bills. The result is reduced incentive to adopt more efficient appliances and water use strategies, thus eroding the resource conservation signal sent by water usage charges.

TEC also believes that wastewater charges should not only reflect the economic costs of transporting and treating effluent, but also the environmental costs of discharging effluent to receiving waters. To reflect the greater environmental costs imposed by those who discharge higher volumes of effluent and in accordance with the principle of polluter pays, usage charges should be applied to sewerage services.

Reducing pressure for supply augmentation is not the only goal or benefit of demand management. Reducing demand for water will also reduce the volume of effluent discharged to the sewerage system and thus lessen environmental impacts. In this context it is appropriate that volume pricing for wastewater form part of overall demand management strategies.

TEC recognises that this approach has limitations in that it is difficult to meter domestic wastewater discharge. In the absence of any means of metering discharge it is necessary for usage charges to be linked to water consumption.

It is clearly not appropriate for discharge factors to be set at 100% given that most customers do not discharge all their water into the sewer. The discharge factor should therefore be set at a reduced level such as the 50% factor previously used by Hunter Water for residential customers. We note Hunter Water's comment in its submission to the 2004 price review that for most properties this represents a conservative assessment of the volume discharged to the sewer (HWC, 2004).

While clearly not a perfect system, we strongly believe that it represents a superior approach to present pricing arrangements. It is true that such a pricing structure does not take into account the possibility that the amount discharged to the sewer may vary from property to property. It is clearly fairer, however, than a simple fixed service charge which reduces the capacity for customers to control their bills and effectively subsidises high users at the expense of more water efficient customers.

In order to make such a pricing structure more accurately reflect the contribution of flats and units the discharge factor for such properties should be set at a higher level.

TEC believes that the Tribunal should also direct HWC to investigate mechanisms that would more accurately reflect the contribution of each customer to the sewerage system such as wastewater metering, or charging according to property size and land use or refining discharge factors. Such a system should also include rebates for customers who can demonstrate that they have reduced their contribution to the sewerage system (and thus the environmental costs of effluent disposal) through the installation of water efficient devices and improvements to private service lines.

Recycled water schemes

TEC supports the Tribunal's pricing guidelines for water agencies to use in calculating recycled water prices. In particular, we endorse the principle that water utilities should be able to recover avoided costs attributable to water recycling schemes from the broader customer base (IPART, 2008).

TEC supports HWC's current and proposed recycling initiatives but believes more effort should be made to increase the quantity of effluent recycled. As stated elsewhere in this

submission, we urge the Corporation and IPART to seek additional opportunities for effluent reuse. This should include the abolition of Hunter Water's 'location based' prices for certain large volume customers which diminish the potential market for recycled water.

Stormwater charges

TEC notes that HWC is proposing to retain, with minor modification, current area based charges for stormwater (HWC, 2012). TEC believes that stormwater charges should, as far as possible, be catchment based and linked to environmental impacts. In this respect charges should be reflective of the amount of stormwater a property contributes to the drainage system (i.e. linked to the total area of impervious surfaces on each property as this determines stormwater runoff to a significant extent).

Pricing should also provide rebates for customers who install on-site stormwater management facilities such as retention basins and stormwater recycling (i.e. rainwater tanks). This would act as a powerful incentive for developers and property owners to embrace water sensitive urban design features.

To prevent hardship that may occur as a result of basing charges entirely on the contribution of a property to the stormwater system, TEC advocates a two-part tariff with a fixed service charge and a sliding scale of area based charges. This would reflect the fact that all customers benefit to at least some extent from drainage works, whether or not their property is directly affected, while still providing strong polluter pays signal.

To ensure that the HWC carries out required stormwater and environmental improvement works, funds raised from stormwater charges should be equivalent to expenditure. Any revenue in excess of current capital expenditure (where that expenditure is necessary and environmentally responsible) should be quarantined and directed to reducing the volume and improving the quality of water carried in drainage systems. Targets for both quality and quantity of stormwater should be based on the hydraulic capacity of catchments rather than the hydraulic capacity of drains. Such targets should include requirements to restore and rehabilitate a minimum length of drainage canals to more natural, stream habitat.

FURTHER ISSUES FOR THIS REVIEW

Environmental standards and efficient expenditure

TEC notes that the Tribunal is to consider whether HWC expenditure on meeting environmental objectives is efficient and meets environmental objectives. While acknowledging the importance of ensuring efficiency TEC is concerned that there should be no diminution of environmental performance. Provision of water, wastewater and drinking water services causes significant environmental impact even when current

standards are fully complied with. Furthermore, any assessment of cost effectiveness should consider the benefits of minimising environmental impacts.

Tillegra Dam land holdings

The Tillegra Dam proposal was rejected by the NSW Government in 2010 on planning grounds. Further, HWC was required to commence negotiations with former land owners regarding possible buy-back of land acquired in the Tillegra precinct. To date, however, HWC retains ownership of lands acquired for Tillegra DAM. As this land is no longer required for Tillegra Dam it should not be included in the regulatory asset base (RAB). Costs of maintaining the land or developing a long-term land use strategy (HWC, 2012) should not be recovered from HWC customers.

Water sales to the Central Coast councils

TEC believes that present arrangements governing prices for transfers between HWC and the Central Coast councils are generally appropriate.

We note HWC's proposals for inter-regional water banking arrangements between HWC and the Central Coast councils. We believe that this option requires detailed scrutiny to determine environmental costs and benefits. While such an arrangement may maximise regional storages (HWC, 2012) and reduce need for future augmentation, further details are required to fully assess this option. This arrangement could amount to augmentation by stealth unless clear rules are established to determine how and when such transfers operate. The need for inter-regional banking should be considered against alternatives such as further demand management and increased water recycling. Impacts on river flows and the Hunter River estuary should also be considered. We note that this option is being considered in the Lower Hunter Water Plan (HWC, 2012). This is of interest given the general lack of information and public consultation on progress of the Lower Hunter Water Plan to date.

REFERENCES

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