

**REVIEW OF PRICES FOR HUNTER WATER CORPORATION**

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

**October 2015**

## **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.

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 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, 2015) follow.

## **LENGTH OF THE DETERMINATION PERIOD**

TEC believes that 4 year determinations have generally worked well and are appropriate for the current review. We support the Tribunal's view that this provides a balance between providing certainty to the regulated business and limiting delays in efficiency gains (IPART, 2015). Further the current timing of four yearly determinations occurs at a point in the NSW electoral cycle that reduces the likelihood of the pricing process becoming politically compromised.

TEC acknowledges that there is merit in maintaining alignment of determination periods between Sydney Water, Hunter Water and Water NSW. This allows a consistent approach to be maintained to issues common to all three agencies. We caution, however, that conducting reviews simultaneously places considerable burdens on community and non-government organisations that lack the resources of large utilities or the Tribunal. This could limit the quality of participation in the review process. We urge the Tribunal to ensure that, if reviews are conducted concurrently or within a short period of one another, that ample time be provided for groups with limited resources to review all relevant material and contribute submissions to the review process.

## **OPERATIONAL EXPENDITURE**

TEC is not in a position to provide detailed critique of all of Hunter Water's proposals; however we urge the Tribunal to ensure Hunter Water's proposed operating expenditure is sufficient to ensure that the corporation is able to meet all of its environmental and system performance obligations and to implement the Lower Hunter Water Plan.

## **CAPITAL EXPENDITURE**

As with Hunter Water's proposed operation expenditure TEC is not in a position to provide detailed critique of all of Hunter Water's proposals; however we urge the Tribunal to ensure that it sufficient to ensure that Hunter Water is able to meet all of its environmental obligations and that there is no increase in the corporation's environmental impact.

TEC notes Hunter Water's proposed expenditure of \$3.5 million on the assessment rehabilitation and replacement of stormwater channels (Hunter Water Corporation, 2015; IPART, 2015). We urge that this include rehabilitation of stormwater canals to more natural conditions where feasible. TEC believes that stormwater management should look beyond the traditional approach of constructing and maintaining canals while treating stormwater as a waste product. In our submission to the previous review (TEC, 2012) we welcomed Hunter Water's proposed investigation of Lower Throsby Creek rehabilitation requirements and the potential for channel naturalisation (Hunter Water Corporation, 2012). We encourage Hunter Water and the Tribunal to ensure that this project continues.

## **FORECAST WATER SALES AND CUSTOMER NUMBERS**

TEC notes that Hunter Water forecasts an increase in demand of 0.8% per year over the 2016 determination period with residential demand to grow by 0.2% per year and non-residential demand to grow by 1.9% per year (Hunter Water Corporation, 2015; IPART, 2015). This expected increase in demand highlights the importance of providing strong resource conservation signals via pricing structures (see below). In particular the forecast growth in non-residential demand indicates the urgent need to reform price structures (including abolishing 'location based prices') for non-residential customers.

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**

### **Water prices**

Providing strong conservation signals and reducing demand for water should be a key consideration in determining price levels and structures. TEC does not believe that current pricing arrangements are adequate to achieve this objective. We note also that Hunter Water research indicates a strong desire by customers for greater control over their bills (Hunter Water Corporation, 2015; IPART, 2015).

Current high levels of fixed charges reduce the control that customers can exercise over their bills and thus diminish the resource conservation signal sent through prices. We therefore oppose Hunter Water's proposal to substantially increase the water service charge for residential and non-residential customers (Hunter Water Corporation 2015; IPART 2015). We urge the Tribunal to instead reduce fixed charges in favour of greater reliance on usage charges.

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 the 2008 and 2012 reviews 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.

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.

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.

### **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 was generally negative with customers concerned about a reduced ability to control their bills (Hunter Water Corporation, 2012; 2015).

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.

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.

### **Stormwater charges**

TEC notes that HWC is proposing to retain current area based charges for stormwater (Hunter Water Corporation, 2015; IPART, 2015). 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.

## **WHOLESALE PRICES**

TEC notes that the treatment of wholesale water pricing is a significant issue for this review and the Sydney Water price review. TEC supported the introduction of competition into the water sector under the *Water Industry Competition Act 2006* (WICA). We believed that introducing competition would reduce pressure on existing potable water supplies by promoting the development of alternative sources of water such as recycling and stormwater harvesting. A key feature of the Act designed to promote this was the requirement that private sector operators must obtain 'sufficient quantities' of water from other than a metropolitan water utility.

Recent changes to the Act have removed this requirement, allowing private sector operators to simply obtain potable water from water utilities and distribute this to their customers. TEC did not support this change as we believed it undermined the impetus for development of alternative supplies.

Private sector operators who develop alternative supplies such as recycling or stormwater harvesting may contribute to the conservation of current potable water supplies and reduce the environmental impact of providing water services. In doing so they may contribute to meeting objectives such as those included in the metropolitan water plan.

The recent changes to the WICA have created a situation where some private sector operators may offer potable water obtained from utilities in addition to water obtained from other sources (either potable or non-potable). We therefore believe that a distinction needs to be drawn between wholesale customers who simply distribute potable water obtained from Sydney Water and those do so in addition to providing from other sources i.e. recycling, stormwater harvesting. Pricing for operators who provide water obtained from other sources should reflect the contribution such schemes make to easing pressure on current supplies improving environmental outcomes.

## **RECYCLED WATER PRICES**

TEC believes that recycled water customers should not pay higher total water charges for a given volume than if they were using potable water only. Such an arrangement discourages the use of recycled water and fails to recognise the benefits of recycling to the broader community i.e. reduced demand for potable water and reduced impacts for discharge of treated effluent.

## REFERENCES

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