



Level 9, 299 Elizabeth Street
Sydney NSW 2000
Australia
DX 643 Sydney
Tel: +61 2 8898 6500
Fax: +61 2 8898 6555
E-mail: piac@piac.asn.au
ABN 77 002 773 524

Our Ref:

Jim Cox
CEO
Review of Operating Licence for Hunter Water Corporation
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

ipart@ipart.nsw.gov.au

13 November 2006

Dear Mr Cox

Review of Operating Licence for Hunter Water Corporation

PIAC welcomes the opportunity to make this submission to the review of Hunter Water Corporation's Operating Licence.

The Operating Licence issued to the Hunter Water Corporation establishes the basis on which the water utility supplies water, provides sewerage and drainage services and disposes of wastewater in the Hunter area of operations. The *Hunter Water Act* sets out the minimum contents of the operating licence. Under those provisions, one role of the operating licence is;

(13)(1)(c) to ensure that the systems and services meet the quality and performance standards specified in the operating licence in relation to water quality, service interruptions, price levels and other matters determined by the Governor and set out in the operating licence.

Quality and performance standards of utility services change over time. The challenge at this review is to identify how effectively Hunter Water is travelling against existing licence obligations. It also is the opportunity to identify new performance measures resulting from changing circumstances and community expectations of the utility.

In PIAC's view, there are four key issues facing Hunter Water during the 2007-2012 operating licence period. The greatest of these will be the challenge faced by the increased integration with the Central Coast water supplies, compounded by population growth and static water supplies in the region. The supply and demand balance will require additional safeguards to encourage effective demand management. The region is also susceptible to a general trend occurring across all utilities with affordability of essential services seriously challenged by



increasing infrastructure investment and a higher inflationary environment. PIAC also recognises that service performance standards will continue to identify localised network problems, particularly sewerage and water pressure problems in the area of operations. Lastly, we observe that further developments of the National Water Initiative could re-shape regulatory demands on Hunter Water during 2007-2012.

The Operating Licence must also consider Hunter Water's obligations under the *State Owned Corporations Act 1989*,

- (1) The principal objectives of every company SOC are:
 - (a) to be a successful business and, to this end:
 - (i) to operate at least as efficiently as any comparable businesses, and
 - (ii) to maximise the net worth of the State's investment in the SOC, and
 - (b) to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates, and
 - (c) where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development contained in section 6 (2) of the Protection of the Environment Administration Act 1991, and
 - (d) to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

In PIAC's view the four issues outlined above warrant attention based on the obligation to consider the needs of the community, the environment and regional economic development.

1. Best Practice Licencing

Community and customer concerns around economic, social and environmental performance must drive the development of the Hunter Water operating licence. The quality of the Operating Licence issued to Hunter Water in 2007-2012 will depend primarily on how effectively it encapsulates expected service and performance requirements for the water authority.

As a second order issue, the implementation of those requirements must naturally reflect best practices, such as consistency in regulatory terminology across the sector, effective stakeholder consultation and clearly identified benefits of any new requirements. Recommendations 67 and 68 from IPART's *Investigation into the burden of regulation in NSW and improving regulatory efficiency* support the need for water utility regulation to be delivered according to these principles.

The primary test for best regulatory practice in the delivery of Hunter Water's Operating Licence must be the extent to which it addresses community and customer concerns. However these requirements must naturally be delivered cost effectively. Customers ultimately pay for the economic costs of regulation in a monopoly provider of an essential service. Sydney Water's total cost of regulation in 2004-05 was \$6.7 million or 0.8% of total operating

expenditure.¹ Our understanding is that Hunter Water's cost of regulation is comparable with this figure. We note that the costs of regulation have not impeded the capacity of Hunter Water or Sydney Water to return dividends to their shareholders. Nor has the cost been a driver of price increases in the two water utilities.

We also note that the issuing of the Operating Licence to Hunter Water also removes other regulatory obligations from the Hunter Water Corporation. Notably, Hunter Water is not required to report to Department of Energy Utilities and Sustainability (DEUS) on economic, social and environmental performance. Local water utilities across NSW incur significant costs in reporting to DEUS and meeting best practice standards established by DEUS. The issuance of the operating licence moves Hunter Water into a different reporting framework. Hunter Water enjoys some economies of scale in regulatory reporting that other, smaller water utilities cannot capitalise on. The regulatory burden is not therefore unreasonable.

2. Water Quality

PIAC endorses the use of the Australian Drinking Water Guidelines 2004. We note that these guidelines were developed with community input and are currently being used around the country. However, use of the guidelines should not weaken the existing monitoring, reporting and planning licence conditions imposed on Hunter Water. The drinking water guidelines represent best practice in water quality testing but are not a regulatory tool. While the Operating Licence has traditionally transcribed the standards determined by NSW Health, it has also established regular, transparent and accessible water quality reporting in the public domain. Public information about water quality planning and testing is of significant public interest and should be retained in the Operating Licence.

3. System Performance

The Hunter community has in the past been vocal around system performance, especially with regard to water pressure standards and sewerage overflow. PIAC lends it support to ongoing and substantial system performance standards in these core areas of systemic performance. We note that the *Issues Paper* recommends removing the obligation to report system performance complaints on a postcode basis. PIAC recommends against removing this reporting framework for sewerage overflow and low pressure complaints. We note that these issues have locational relevance and have in the past been an area of concern for many residents. We therefore recommend removing the obligation to report system performance complaints by suburb for all complaints except for these two categories.

4. Managing Supply and Demand for Water

Hunter Water has reported a level of residential water consumption well below the target. The *Issues Paper*, however, is unclear about the comparability of the target with Sydney Water's per capita target. PIAC is concerned to ensure that an appropriate target is established for

¹ IPART *Investigation into the burden of regulation in NSW and improving regulatory efficiency* July 2006, p 204

Hunter Water. We also remain unclear as to what targets, if any, apply to the non-residential sector, which consumes around a third of total water consumption. We see no reason why a water consumption target should not be established for the non-residential sector.

PIAC's preference is for water supply and demand balance to be achieved through demand-management programs rather than relying on expensive supply side investment. The customer base stands to benefit significantly from any deferral of the Grahamstown and other new storage investments. In the absence of investment deferral, stronger demand target would nevertheless ensure that new storages are not depleted at an unnecessary rate.

To date, Hunter Water has not delivered a strong and effective demand management program. In PIAC's view a tighter water consumption target will offset the tendency to rely on supply-side infrastructure investment.

PIAC does not believe that the current 215kL residential consumption target is providing adequate incentive to undertake aggressive and effective demand management programs. The benefits of demand management programs in reducing consumption, delaying investment, reducing individual bills and improving awareness regarding the environmental value of water have been demonstrated.

We point to the Sydney Water support of the No Interest Loans Scheme (NILS) as an example of the innovation that can be produced through demand management programs. NILS enables people on very low and fixed incomes to purchase water efficient goods where they normally would not have the financial capacity or credit rating to make the equivalent purchase. The scheme delivers economic, social and environmental benefits in the one program.

Hunter Water has argued that a more challenging water conservation target will drive up customers water prices. We make a number of points in response to this. Firstly, effective demand management program should be cost neutral for households due to the savings that can be made. If demand managements programs are cost money without delivering savings they are clearly not doing their job. Some of those savings will be directly accrued to customers while others will be smeared across the customer base through delaying investment in water infrastructure. Secondly, the suite of programs undertaken by Sydney Water suggests that there is a range of programs that Hunter Water have yet to explore. Rather than simply costing money, a tighter water conservation target could drive more efficient demand management programs. Lastly, we note that the alternative to demand management is often more-expensive for consumers. Supply-side infrastructure investment requires large capital investments at a high cost to current and future generations. Demand management delivers better inter-generational equity by reducing the pressure on scarce environmental resources.

5. Customer Service Standards and Consumer Rights

We note with concern that the *Issues Paper* has failed to identify an alarming increase in restrictions for non-payment by Hunter Water. A review of the Hunter Water Operational Audit 2004-2005 reveals that customers restricted for non-payment has more than doubled over the period 2002/03 to 2004/05.

	2002/03	2003/04	2004/05
Total Number of Restrictions for non-payment	703	1009	1582

Restriction of water for non-payment is an extremely distressing experience for households. Research commissioned by PIAC in 2004 explored the incidence and impact of disconnection from electricity and restriction from gas supply. While Hunter Water did not directly participate in the research, Sydney Water customers were able to do so.

In PIAC's view, increasing pressures on household bills and other essential services will place greater pressure on existing financial assistance programs. Additionally, Hunter Water operates in an area of relatively high socio-economic disadvantage. Given the trend in disconnections we ask the Tribunal to analyse the current debt and disconnection process. Clearly the existing arrangements are resulting in too many restriction actions. The review of Hunter Water's Operating Licence should consider tackle this unacceptable situation by increasing the debt and disconnection standards.

Debt and Disconnection

PIAC endorses the view that customers who are participating in a payment plan, as negotiated between the utility and the customer, should be shielded from interest charges on arrears. The customer has entered into a new financial arrangement and is honouring that arrangement. Payment plans are crucial to assist customers manage high bills, get through difficult financial situations and manage limited funds. We therefore see no reason why a penalty should apply to a compliant payment plan. Further action is clearly required to ensure that the customers in financial hardship are being accommodated.

Centrepay

PIAC recently convened a community forum with community and welfare agencies to discuss the need for Centrepay provisions in Sydney Water's operations. The meeting focussed on the needs of elderly people, people with dementia and pensioners and the central concern of the participants in the meeting was the capacity of older people to deal with bills for water as they are received. As an example, some older people who own their residence simply may find it difficult to deal with even a regular bill for water should there be some intervening event such as a sudden illness. In other cases the intervening event may be an unforeseen household expense such as plumbing or other household repairs.

A particular concern was raised in relation to people who are faced with cognitive difficulties. Clearly this is most common in people experiencing some level of dementia. In such cases the issue facing the customer may not be affordability so much as their capacity to pay bills by the date on which they fall due.

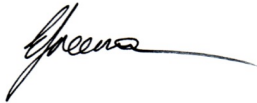
Centrepay could be used to provide an important additional option to Hunter Water and its customers in ensuring that bills for water services are paid in a timely way. For customers, the use of Centrepay would assist greatly in reducing stress associated with unexpectedly high bills or those that fall due in periods of financial stress. Hunter Water would benefit from using

Centrepay through being assured of the payment of outstanding bills and avoiding some of the costs associated with the management of debtor accounts. In other words, then, we believe that a viable business case can be constructed to support the introduction of Centrepay by Sydney Water. PIAC believes that the availability of Centrepay in water utilities will be highly beneficial to vulnerable members of our community.

We further note the benefits that targeted water efficiency programs deliver to households in financial difficulties. The review of the Operating Licence presents an opportunity to require subsidised water efficiency programs for households struggling to manage water bills.

Thank you for the opportunity to contribute to the review of Hunter Water's Operating Licence. We believe the Operating Licence presents an ideal opportunity to ensure a sustainable and equitable supply of water services in the Hunter region.

Yours sincerely
Public Interest Advocacy Centre Ltd

A handwritten signature in black ink, appearing to read 'Elissa Freeman', with a long horizontal flourish extending to the right.

Elissa Freeman
Policy Officer
e-mail: efreeman@piac.asn.au