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Our Ref:

Colin Reid
Director Water and Transport
Independent Pricing and Regulatory Tribunal
Level 2, 44 Market St.
Sydney
2000

12/12/01

Dear Colin

Re : Halcrow report for Hunter Water operating licence

This letter briefly sets out PIAC's response to the consultant's report completed by Halcrow Management Sciences for the Tribunal's review of the Hunter Water operating licence. We also are grateful for the opportunity to have participated in the public workshop held as part of the review.

PIAC is eager to see that the operating licence provides meaningful and effective obligations for Hunter Water as a regulated monopoly. We read with interest the comments from Halcrow that Hunter Water has tended to interpret its existing licence obligations as if there is a requirement that any and all breaches ought to result in some form of sanction being imposed on the Corporation. From the perspective of residential consumers it is pleasing that the licence provides such a strong driver for a regulated business. However we note, as does Halcrow, that to date no sanctions for breaches of licence conditions have been imposed on either Hunter Water or the other regulated utility businesses in NSW. This suggests that Hunter Water's interpretation is not appropriate. Furthermore, we are concerned that this view might be intended or have the effect of limiting further development and refinement of standards in the Hunter Water licence.

With respect to the substantive proposals put forward by Halcrow, PIAC is in agreement that the regulatory process is somewhat constrained by the separation of price determinations and licencing reviews. We agree that a better juxtaposition of price and service could permit the community better to understand the trade-offs inherent to the regulatory process. PIAC understands that the Tribunal currently is seeking advice about its capacity to create a more direct link between price determinations and its role of advising the Minister with respect to licence conditions. This is particularly relevant to the question of how to operationalise Halcrow's preferred 'Option A' as detailed in its report

PIAC is very interested in the ramifications of a move to least cost economic planning (LCP) for the future management by Hunter Water of its assets and responsibilities in areas such as supply reliability, continuity and environmental performance. We are pleased that Halcrow has been able to bring forward its proposal for such a dramatic re-working of the current regulatory approach. However, PIAC does have some concerns about the proposed move to Option A based on least cost planning principles.

Some of these concerns were raised briefly at the public workshops and include the increased complexity of regulatory discussions and the consequent difficulties for community groups and individuals seeking to participate effectively in the regulatory process.

As we understand the proposal, the introduction of LCP principles would require the setting of price as a necessary input to the formulation of performance and engineering solutions. This appears, in the first instance, to suggest that the connection between price and service might not be as strong as first suggested. Further, it seems to imply that moving to the LCP approach would mean a considerable delay in the modernising of Hunter Water's licence, at least until some time after the next price determination is made by the Tribunal. PIAC remains supportive of clear performance targets being established for Hunter Water through the operating licence and is anxious to see obligations relating to, for example, the reduction of system leakages, introduced in the near term.

Finally, we remain uncertain as to the implications for customer service standards of a move to LCP principles. While these are no more important than system performance and environmental obligations we are interested in the extent to which Halcrow's Option A is able to incorporate these principles in the setting of customer service standards.

The submissions from Hunter Water and the report from Halcrow provided important focus on the assessment of future performance and the alternatives of compliance reporting and failure reporting. Halcrow notes that even where compliance is reported as having met or exceeded the standards set down in the licence it is possible that this will provide little comfort to those households who have experienced the effect of a failure in service in a given instance. The public workshop provided strong examples of this kind of dissatisfaction. In our view, it would be of assistance to the community and those households experiencing repeated difficulties with system performance were the Tribunal to consider some disaggregation of performance reporting data such as is being pursued in relation to reliability of supply by the State's electricity industry.

One aspect of system performance given particular attention by Halcrow is security of supply. We note the comments from Halcrow on the research conducted by Sydney Water relating to customer attitudes to drought restrictions affecting water availability. PIAC is not in a position to offer definitive comments on what measures relating to security of supply are appropriate for Hunter Water's operating licence. However, in our view the community is willing to deal with such restrictions arising from, say, severe environmental circumstances. That is to say, in our view it is preferable to have Hunter Water and its customers facing the possibility of some very occasional restrictions rather than the Corporation being required to make considerable capital expenditure on 'drought proofing'.

Closely related to security of supply is the management by Hunter Water of its existing system. As noted above, PIAC continues strongly to favour demand management targets being written into the operating licence. Accordingly, we commend the targets proposed by Halcrow for reduction of leakages from Hunter Water's system.

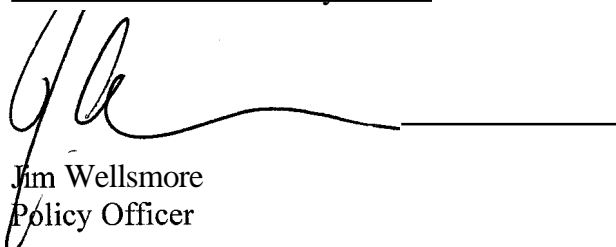
In relation to the monitoring of customer service performance, PIAC's strong preference is for the introduction of clear indicators as opposed to the infrequent customer surveys proposed by Hunter Water. It is pleasing that Halcrow has brought forward to the review its proposals for indicators for Sydney Water's licence. PIAC is particularly supportive of the proposals for indicators in the areas of complaints, affordability and the issuing of accounts based on actual meter reads.

Affordability obviously is related to internal processes of Hunter Water, for example in relation to its policy on customer debts and the escalation of these towards restriction of supply and even disconnection. PIAC supports the decision of the Tribunal to defer consideration of Hunter Water's customer contract. We look forward to future discussions on the inclusion in the customer contract of a debt and disconnection code of practice. It is hoped also that this will provide an opportunity to raise once more the absence from Hunter Water of a payment assistance scheme for those customers or tenants facing difficulty in paying their water bills.

We also look forward to further discussions on the types of redress to be made available through the customer contract to households experiencing some system performance failure. We note particularly the option mentioned by Halcrow of some structure of escalating payments where problems recur or repeated breaches of standards are experienced.

In closing, PIAC would like to thank the Tribunal once more for the opportunity to participate in the review. We trust these comments will be of assistance.

Yours sincerely
Public Interest Advocacy Centre



Jim Wellsmore
Policy Officer