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28 March 2024

Mr Peter Achterstraat AM  
NSW Productivity Commissioner  
GPO Box 5469  
Sydney NSW 1240

Via email: LWUReview@treasury.nsw.gov.au

Dear Productivity Commissioner

## ALTERNATIVE FUNDING MODELS FOR LOCAL WATER UTILITIES – ISSUES PAPER

Further to in-person discussions held with NSW Productivity Commission representatives and Hunter Water’s Managing Director, Darren Cleary, on 18 March 2024; Hunter Water welcomes the opportunity to formally respond to the NSW Productivity Commission’s Alternative Funding Models for Local Water Utilities (LWUs) Issues Paper.

Hunter Water is a State-Owned Corporation (SOC) providing water and wastewater services to 630,000 people across the Greater Newcastle and Lower Hunter region. Our public ownership has recently been enshrined in the NSW constitution. Beyond water and wastewater, we also provide stormwater drainage, trade wastewater, and recycled water services to a portion of customers in our area of operations.

Our operations are regulated by the NSW Government and we are governed by the *State Owned Corporations Act 1989* and *Hunter Water Act 1991*. Our Operating Licence is issued by the Governor at the recommendation of our Portfolio Minister. The Licence is recommended, reviewed, and administered by the Independent Pricing and Regulatory Tribunal (IPART). IPART also sets the prices we charge for the regulated services we provide in a comprehensive price review process every four to five years.

This submission responds to three key groups of questions raised by the Commission in its Issues Paper:

### Questions 7 – 11: Minimum service levels and water utility performance

Hunter Water’s Licence sets out the performance standards we must comply with, including water quality and system performance<sup>1</sup>. Our Operating Licence is mature and has evolved over time to rely less on mandated targets, minimum service levels, and specific requirements in favour of risk-based management systems to ensure suitable outcomes are achieved.

We note that a focus of the Productivity Commission’s review is the setting of minimum service levels for LWUs. Where it is of benefit to the review and LWUs, Hunter Water is open to collaborating and sharing our experiences in how we approach compliance with minimum service standards, including the development and implementation of robust risk-based management systems. Table 1 highlights some of the key requirements in our Operating Licence.

<sup>1</sup> Hunter Water Operating Licence, 2022-2027

**Table 1: Key requirements in Hunter Water’s Operating Licence**

Licence area	Requirement
<b>Water quality</b>	<ul style="list-style-type: none"> <li>• Must maintain and implement a Drinking Water Quality Management System (DWQMS) consistent with Australian Drinking Water Guidelines (ADWG).</li> <li>• Must maintain and implement a Recycled Water Quality Management System (RWQMS) consistent with Australian Guidelines for Water Recycling (AGWR).</li> </ul>
<b>System performance</b>	<ul style="list-style-type: none"> <li>• Protection of customers via mandatory minimum performance standards for water continuity, water pressure failures and dry weather wastewater overflows.</li> <li>• These are quantified measures and require Hunter Water to ensure that a defined proportion of connected properties are not affected by each of these service issues.</li> </ul>
<b>Assets</b>	<ul style="list-style-type: none"> <li>• Must maintain and implement an Asset Management System that is consistent with ISO 55001:2014.</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>• Must maintain and implement a Management System for managing environmental responsibilities and impacts that is consistent with ISO 14001:2016.</li> </ul>
<b>Quality, customer, regulatory and stakeholder requirements</b>	<ul style="list-style-type: none"> <li>• Must maintain and implement a Management System for delivering quality services, meeting customer expectations and regulatory requirements that is consistent with ISO 9001:2016.</li> <li>• Requirements to maintain a Customer Contract, consult with customers, provide information, cooperate with stakeholders, and implement a range of procedures relating to supporting customers experiencing payment difficulties, family violence and to handle complaints.</li> </ul>
<b>Water Security</b>	<ul style="list-style-type: none"> <li>• Must maintain and update annually a five-year Water Conservation Plan that includes current and proposed water conservation works programs. The plan must cover water efficiency, leakage, and recycled water.</li> </ul>

### **Question 17: Leveraging the capabilities of State-Owned Corporations**

Hunter Water agrees with the Productivity Commission’s commentary that due to their size and sole focus, SOCs can achieve greater economies of scale than smaller LWUs. While this is in part due to the centralisation of administrative functions and greater purchasing power, more significantly, this reflects the urban context in which metropolitan SOCs operate, with large customer bases in close geographic proximity, and the application of postage stamp pricing.

We empathise with LWUs about the challenges they are facing and being experienced by their customers and communities.

Notwithstanding economies of scale, Hunter Water also faces significant challenges in delivering value for our customers and maintaining affordability in the context of a growing region, changing climate, rising operational and construction costs, and evolving customer, stakeholder, and regulatory needs and expectations.

Our shared challenges, most particularly on customer affordability, suggest that many of the options proposed are not ready solutions, particularly when it comes to user pays. Cost-benefit analysis is likely needed to assess whether these, or other, options provide a net benefit when applied to specific cases.

Hunter Water remains open to collaborating with LWUs and exploring a range of ideas, where practical, to improve outcomes for society. Collaboration alone, however, is unlikely to solve the core issues that LWUs are facing.

For stakeholder consideration, we suggest two other opportunities for SOC – LWU collaboration:

### **Knowledge-sharing arrangements**

Sharing the knowledge that SOCs already possess, and obtain over time through dedicated investigation and experience, could benefit LWUs and be a low-cost way for them to leverage the capabilities of SOCs. For example: research, knowledge, data, and insights related to drought response, water security planning, biosolids management, asset management and water quality science, and in response to natural disasters.

In recent times, for example Hunter Water supported neighbouring LWUs in response to extreme events such as during the extended and severe drought (including through developing a tanker program with upper Hunter councils during the most recent drought), and in response to the Lismore flood event.

### **Shared digital services**

While geographic dispersion can constrain the ability of the water sector to create economies of scale, this is not necessarily true for digital services. There will be many challenges in developing workable arrangements, but if these can be agreed, sharing of digital platforms and related services could:

- Reduce the total costs spent on digital services across the NSW water industry.
- Increase the customer base over which digital investments are recovered.
- Generate additional productivity gains, in cases where implementing new technology and digital services may otherwise be unaffordable for LWUs and SOCs.

The idea of sharing digital services has merit even between SOCs and should be explored further to promote digital adoption, efficiency, and manage future bill impacts for both SOC and LWU customers.

### **Question 15: Consistent support for at risk customers**

Through recent engagement undertaken to support our next pricing proposal to IPART, Hunter Water has heard from our customers and community that they support greater equity in outcomes for pensioners and other customers vulnerable to experiencing financial hardship.

These recent insights are not unexpected and reiterate findings from previous community engagement, and from matters periodically raised with us by our customers.

Presently, there is a substantial inequity in the quantum of financial support provided to the customers of different SOCs and of LWUs.

We see significant merit in supporting the consistent expansion of rebate schemes to at risk customers of all water utilities across the state. Increasing flexibility and targeting for CSO payments will better ensure that rebates are received by individuals who require financial assistance. Given the current climate of affordability challenges, this matter is as important as ever.

The Issues Paper describes three ways the rebate scheme could be expanded to improve affordability for other vulnerable households:

- Renters – to ensure all pensioner households have access to rebate payments.
- Commonwealth Healthcare Card holders.
- Low-income households.

To ensure the most vulnerable community members are assisted, it is important that the eligibility criteria is reviewed, and additional vulnerable customer groups are considered. In addition to the above three groups, there may be other potential refinements and improvements that are worth exploring. Following any recommendations made by the Commission, Hunter Water would welcome the opportunity to work with stakeholders to consider and design innovative options to expand rebate schemes.

There may be practical implementation issues with expanding rebates to some groups, due to knowledge and data gaps for SOCs, LWUs or the NSW Government. For example, Hunter Water's customer relationship is with the property owner only. Without access to tenant details, Hunter Water is unable to administer support to renters who receive other concession payments,

despite many of those customers paying for water directly (in the case of water usage, which can be passed onto residential tenants by property owners) or indirectly as part of their rent.

The Issues Paper points out that Hunter Water currently has a NSW Government CSO-funded pensioner rebate of around \$380 per year, whereas Sydney Water has a NSW Government CSO-funded pensioner rebate of around \$650 per year, and up to \$782 per year for customers who also receive a stormwater service from Sydney Water<sup>2</sup>.

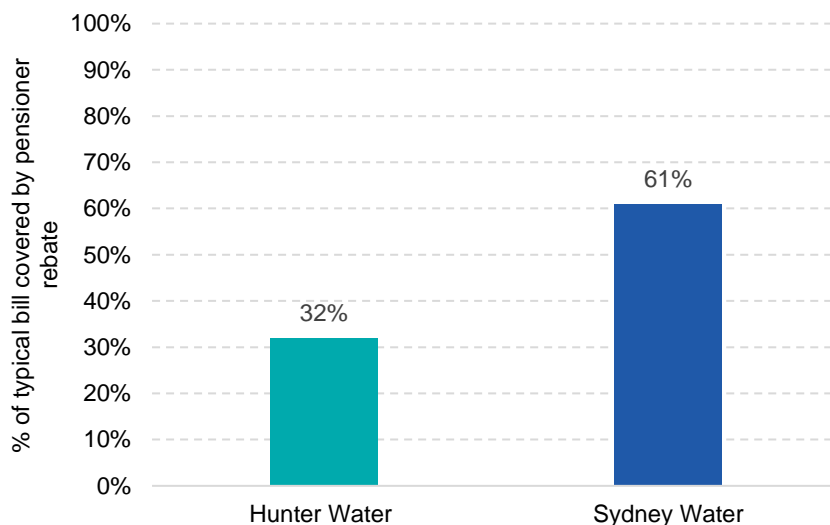
When compared to a typical bill, Hunter Water pensioner's rebates cover around 32% of a typical customer's water and wastewater bill, whereas Sydney's pensioner rebate covers around 61% of a typical bill (see Figure 1).<sup>3</sup>

We recognise that this inequity is further exacerbated for customers of LWUs, whose rebates have not been indexed since 1993, and where the LWU is required to directly subsidise 45% of the cost from other customer bills.

Hunter Water, as a State-Owned Corporation, provides a consistent dividend stream to the NSW Government, as our owner and Shareholder. The NSW Government returns part of this dividend stream to Hunter Water's at-risk customers via a pensioner rebate in the form of a Community Service Obligation (CSO).

The varying ownership structures between SOCs and LWUs further complicates the provision of rebates across the State, including determining the appropriate source of funding. Broader reform in this space would require various levels and parts of Government to work together, including aligning with other forms of government support such as those offered to electricity customers, enabling the sharing of information for the efficient and effective delivery of rebates to these groups. In the NSW context, this could also include administration of rebates centrally for water customers by entities like Service NSW.

**Figure 1: Pensioner rebate as a proportion of typical household bill (water and wastewater)**



#### ***Methodology for calculating pensioner rebates***

The discrepancy in the value of rebates provided to different utility customers has developed over time, in part due to the differing methodologies used to calculate the rebate.

Both Hunter Water and Sydney Water's rebates are calculated as a portion of the average customer bill (Hunter Water's rebate is calculated as a portion of the typical total customer bill, while Sydney Water's reflects a proportionate rebate on each service). Both these methodologies enable the rebates to adjust automatically as bills change over time. This contrasts to the LWU methodology, which is set in legislation without any adjustment or indexation methodology.

<sup>2</sup> Sydney Water's website cites the current rebate as \$195.46 per quarter for customers who receive a water, wastewater and stormwater service (i.e. \$781.84 per annum) - <https://www.sydneywater.com.au/accounts-billing/managing-your-account/pension-rebates.html>

<sup>3</sup> National Performance Report, 2022-23 – Indicator P8 (Total Typical Residential Bill)

Utility	Hunter Water	Sydney Water	LWUs
<b>Eligibility</b>	Centrelink Pensioner concession card or DVA Gold Card holders	Centrelink Pensioner concession card or DVA Gold Card holders	Centrelink Pensioner concession card or DVA Gold Card holders
<b>Existing methodology</b>	27.25% of the 'typical' combined water and wastewater bill for a customer using 200kL per annum  No additional rebate for stormwater customers	The sum of: <ul style="list-style-type: none"> <li>100% of the water service charge</li> <li>86% of the wastewater service charge</li> <li>50% of the stormwater service charge (where applied)</li> </ul>	The sum of: <ul style="list-style-type: none"> <li>\$87.50 for customers with a water service</li> <li>\$87.50 for customers with a wastewater service</li> </ul> No additional rebate for stormwater customers
<b>Value (\$24)</b>	\$126 per triannual bill \$380 per annum	\$162.61-\$195.46 per quarterly bill \$650-\$781.84 per annum	\$43.75 per quarterly rates notice Up to \$175 per annum
<b>Funding source</b>	100% funded by the NSW Government under a CSO payment  SOC provides dividend stream to NSW Government.	100% funded by the NSW Government under a CSO payment.  SOC provides dividend stream to NSW Government.	55% funded by the NSW Government  45% funded by the utility/Council

### Targeting rebates

The issues paper also explores the use of different metrics to better target CSO payments<sup>4</sup>:



Hunter Water is supportive of the use of socio-economic metrics to target the delivery of support payments and help ensure funding flows to areas and households where it is needed most.

Despite the lower rebate level, households in Hunter Water's area of operations, and many LWU areas, have a far higher level of relative socio-economic disadvantage than the Greater Sydney region (see Figure 2, Figure 3, and Table 2).

We agree with the Commission that the use of socio-economic indexes, such as SEIFA produced by the ABS, could enable more effective targeting of support payments to water customers across NSW.

<sup>4</sup> Alternative Funding Models for Local Water Utilities Issue Paper, page 10



Figure 2: Relative disadvantage in the Hunter region <sup>5</sup>

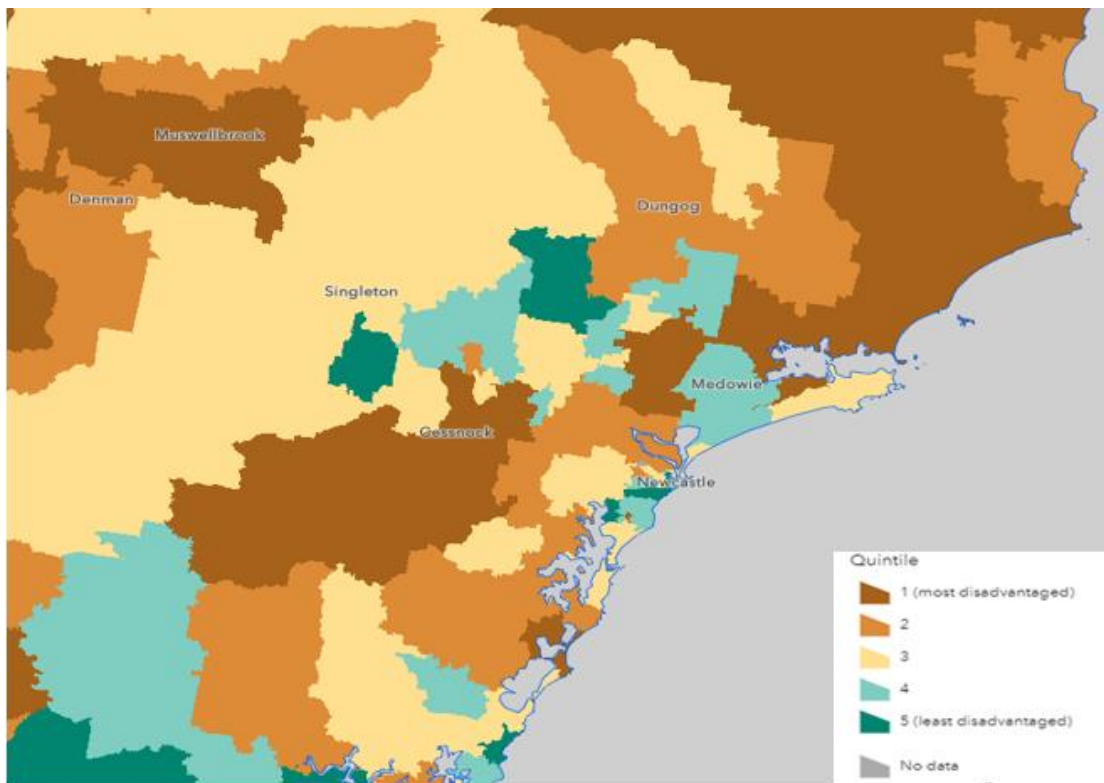
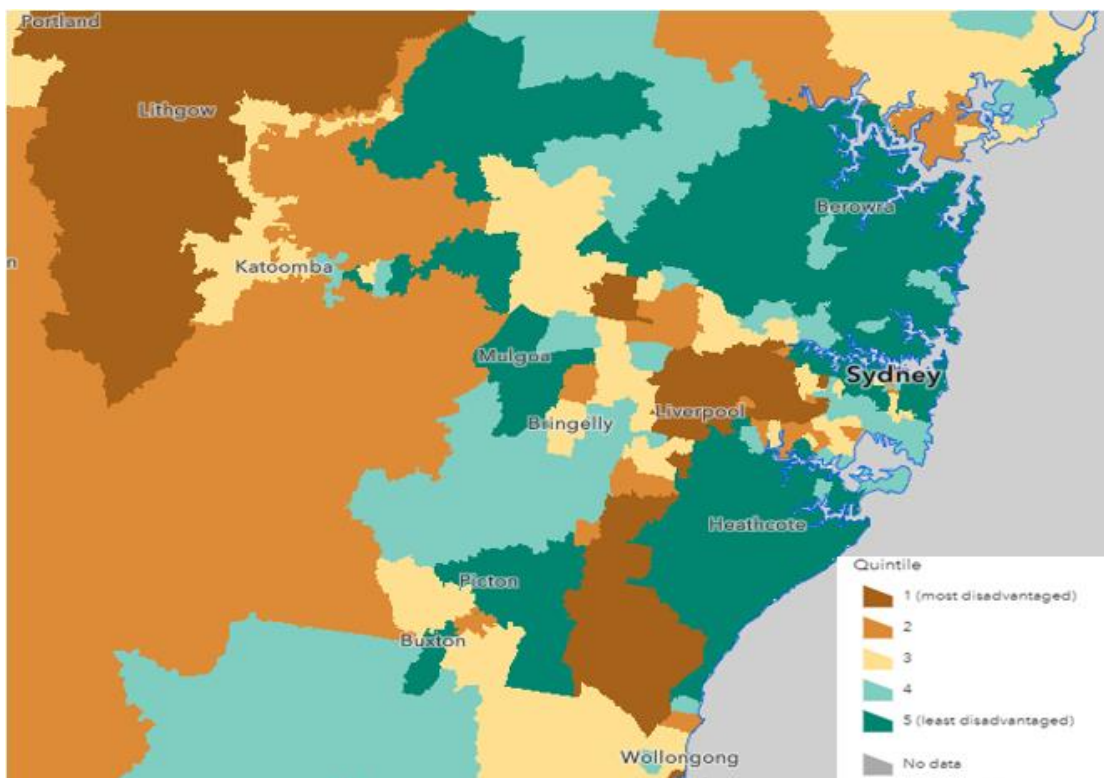


Figure 3: Relative disadvantage in the Greater Sydney region <sup>5</sup> Error! Bookmark not defined.



<sup>5</sup> Australian Bureau of Statistics (ABS), Socioeconomic Indexes for Areas (SEIFA) 2021 – Relative Disadvantage filtered by postcode

**Table 2: Proportion of disadvantaged postcodes**

Area	Percentage of postcodes in lowest two quintiles (More disadvantaged)	Percentage of postcodes in the highest two quintiles (Less disadvantaged)
Hunter Water area of operations	35% (17 of 47)	23% (11 of 47)
Greater Sydney	30% (72 of 242)	65% (157 of 242)

We thank the Commission for the opportunity to contribute towards this review.

Yours faithfully



JENNIFER HAYES  
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