People for A Living Moorabool
PALM
P.O Box 12
Bannockburn
Vic 3331
Email: mooraboolriver@gmail.com

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To: Essential Services Commission

Water Price Review 2023 team

Re: Barwon Water 2023 Price Submission

To whom it may concern,

People for A living Moorabool (PALM) is a grass roots group which has been advocating for over a decade for increased environmental flows for the Moorabool River, a river which is acknowledged as the most flow stressed in Victoria.

PALM would like to express direct support for the following proposed outcomes within the Barwon Water submission as they relate to the Moorabool River.

> **Outcome ID: 3i.** 3,700 ML/year long-term average equivalent entitlement returned to Moorabool River by 2025, to be shared between environment and Wadawurrung.
>
> **Outcome ID: 3j.** Spent $7.3 million to improve catchment and waterway health and quality by funding initiatives such as citizen science, Landcare, willow removal programs and other river restoration works.

PALM recognises the collaboration between Barwon Water and the Central and Gippsland Sustainable Water Strategy team in including **Outcome 3i** within the final iteration of the CGRSWS. The Moorabool River has been impacted significantly by reduced inflows due to climate change and overextraction. The commitment of 3,700ML/year will serve to help stem the dramatic decline in river health, due in a large part because of extractions by both Barwon Water and Central Highlands Water and is welcomed by all those who are concerned about the future for the Moorabool River.

PALM also welcomes the commitment from Barwon Water to spend $7.3 million to improve waterway health and quality outline in **Outcome 3j**. An example is the inexcusable proliferation of willows along Barwon Water reservoirs like Bolwarrah which has seen the persistent spread over many years downstream on to private properties. These funds will hopefully allow Barwon Water to fulfil their obligations as land managers by addressing issues such as these, obligations that up until now were not being met.

PALM would also like to commend Barwon Water for their community consultation process including the deliberative Water for Our Future Community Panel. PALM welcomed opportunities to provide input into both it and into the pricing submission process through the Regional Forum.

As related in Barwon Water's submission, a clear direction from the Customer & Environmental Advisory Committees was that "A fixed minimum environmental flow in rivers regardless of climate impacts is important". PALM appreciates Barwon Water is working toward that with Outcome 3i.

Pricing mechanism

There is little doubt that Victorian urban water authorities are having to consider more expensive water sources as they deal with growing populations and depleting inflows into our reservoirs due to the impacts of climate change here in Southern Victoria. Heavily over allocated and flow stressed systems such as the Moorabool River have been pushed to the brink and cannot be expected to shoulder the burden of supplying water for more and more people from quickly diminishing inflows.

There is growing community acceptance and expectation that 'manufactured' and largely climate dependent sources of drinking water will be part of their future.

What hasn't been decided is the degree to which various sectors will be asked to contribute to the cost of new sources such as desalination, recycling to drinking water standards, or stormwater capture and reuse.

While the distinction between the role of water authorities as either utilities or corporations has been blurred over the last two decades the Essential Services Commission is clear in how it sees its role:

> *"We issue price determinations that approve the maximum prices water businesses may charge. The prices we approve reflect an assessment of the efficient costs water businesses need to recover to provide valued services to customers."*
>
> *https://www.esc.vic.gov.au/water/water-prices-tariffs-and-special-drainage/water-price-reviews*

The quandary, to a degree, is that the water we most highly prize (that which comes from our taps to quench our thirst, to cook out food, to wash ourselves and otherwise contribute to our health and wellbeing), is water our society broadly and rightly agrees should be provided at the most reasonable cost practicable. This is opposed to the alternative which is letting market forces set the prices.

The question becomes how should this ethic be reflected in the pricing structure imposed on residential customers by the urban water authorities? What extra measures can be employed which will enable fairness dividends which may not be deliverable though a flat rate on consumptive use?

The one area PALM feels were not properly explored by Barwon Water through this process was presenting alternative pricing mechanisms to their customers.

Inclining Block Tariffs

Many water authorities in Australia have used inclining block tariffs (IBTs) in an attempt to increase equity within their pricing structures.

IBTs deliver an initial amount (block) of water to each household at a more modest per litre price. Following blocks of water are priced at increasingly higher rates.

An example is the tariff structure deployed by Wannon Water last financial year.

Water Usage Charges – Residential Customers ($/kL)

	Group A	Group B
Block 1 (0-438 litres/days)	$1.5052	$1.0255
Block 2 (439-822 litres/day)	$2.1795	$1.6808
Block 3 (822+ litres/day)	$3.2696	$2.5212

Water Usage Charges – Non-Residential and Rural Customers ($/kL)

	Group A	Group B
Drinking Water	$2.1795	$1.6809
Non-Drinking Water	$1.5052	$1.0255
Rural Water Usage Surcharge*	$2.0000	$2.0000

*The rural water usage surcharge applies for water volume used above the maximum annual usage limit set for a rural customer and is in addition to the water usage charge.

https://www.wannonwater.com.au/media/88561/wannon-water-pricing-tariffs-2021-22.pdf

An allocation of water to serve the basic needs of a household is provided at a cheaper rate, while those who might use increased volumes of water to perhaps keep and water intensive garden or top up a swimming pool through summer are paying a higher price for that subsequent block of water. This tariff structure is regarded by many as progressive and therefore desirable.

It also gives a mechanism for water authorities to enact demand management without unduly adding to basic 'cost of living expenses'. By only adjusting the rates of higher blocks it is seen as impacting discretionary water use rather than that provided for basic needs.

> *"Increasing block tariffs can be used to impose conservation incentives on some target group of large users. The impact on conservation of an increasing block tariffs design is best illustrated by comparing it to the simplest alternatives uniform tariffs. Customers facing the higher prices at the margin will, in theory, use less water than they would under the uniform design; customers facing lower prices at the margin will use more. The increasing block design will conserve water if the sum of decreases in use exceeds the sum of increases (Metropolitan Water District of Southern California, 1991). The expectation is that demand in the high blocks will be more elastic than demand in the low blocks, resulting in a net decrease in water use."*

Topically it also provides a mechanism for financing the inevitable move to manufactured sources of water through adjusting the price of second and third tier blocks, something which also assists in providing a pricing signal to ease future demand.

There have been calls for a blanket increase in the price of water by some advocates for things such as improved river health. Such advocates are invariably seeing a significant decline in their waterway, often because of harvesting for urban water supplies, and view demand management through increased pricing as desirable. At first glance it is not an unreasonable approach, but it ignores to a significant degree the impact on cost-of-living expenses, particularly for our less affluent. Others would argue pricing impacts should only be countenanced outside the provision of essential water needs and that affordable access to something as essential as water should be regarded as a right by citizens and an obligation by utilities.

The Geelong Region

In the greater Geelong region, an IBT structure would serve to reflect the area's sources of drinking water. If the 300,000 residents were supplied by Barwon Water at the rate of 100lts per day it would require approximately 11 GL of water per annum, about a third of the region's current usage. If this was the most our local rivers like the Moorabool and the Barwon were asked to provide, they would be in markedly better condition than they are currently.

Compared to low-cost gravity fed sources provided by our rivers, water from more expensive sources such as the Melbourne to Geelong Pipeline and the Anglesea Borefield might be priced appropriately via high tariff blocks and by a separate rate for non-residential users. It would be the same way of funding future large projects providing climate independent water supplies like desalination, potable reuse of recycled water and stormwater capture and use.

The equity benefits might not end there. The Geelong Region's coastal towns like Lorne and Apollo Bay require expensive water infrastructure far in excess what would normally be

required without the impact of large numbers of summer visitors. The costs of providing and upgrading that infrastructure is currently to be atomised over the entire bill paying community. This means Air B&B businesses, and their 'out of the region' visitors who often have little awareness or incentive to conserve water at their accommodation, are being subsidised by the wider community across the region. Under a robust well thought out IBT system heavy summertime usage at a connection would mean water is charged at the higher tariff blocks, thus enabling the water authority to recoup capital costs from that user group rather than inflicting those cost on the rest of the community.

To reiterate this important reflection. The rivers currently supplying the Geelong region's water needs, with a different approach, would be able to provide a 'living' amount of water not only to the many species which depend on them, but also the basic water needs of our human population. It is water being used in excess to those needs which is placing such a damaging and unsustainable burden upon rivers like the Moorabool and the Barwon. Pricing for other than for basic residential supply should reflect the more expensive sources of water.

Further is should be recognised that river water is generally gravity fed and being provided through infrastructure which has long ago been paid for by previous generations, making it more reasonable to have it charged at the lowest tariff block.

Community acceptance

The community's willingness to adopt IBTs was tested via Barwon Water polling several pricing submissions ago and it found a sizable majority indicated support for their implementation. The organisation decided not to adopt this pricing structure at the time.

Inclining Block Tariff Limitations

There are recognised limitations to the standard IBT structure however. Larger household families are not accounted for and are often moved into higher priced tariff blocks more rapidly, therefore decreasing equity. Refugee families, several of which may share the same house, can be the most impacted. Given these family types are more often represented in

lower socioeconomic households, the equity benefits of IBTs can be eroded particularly in these circumstances.

Issues such as this can be markedly ameliorated by a per capita system of IBTs. Such systems were being proposed nearly 20 years ago.

A paper in 2003 *Water as an economic good and water tariff design. Comparison between IBT-con and IRT-cap - Liu, Junguo ; Savenije, Hubert H. G. ; Xu, Jianxin* looked at Inclining Block Tariffs per connection (IBT-com) against a proposed Increasing Rate Tariff per capita (ITR-cap).

http://site.iugaza.edu.ps/sghabayen/files/2017/02/Water_as_an_economic_good_and_water_tariff_design.pdf

By accounting for the number of residents using a particular connection the water bill was able to support a more equitable outcomes which better reflected an ability to pay.

Thoughts on implementing an per capita inclining block tariff system.

The reasons given for some urban water authorities like Barwon Water deciding not to adopt IBTs, despite polling residents and receiving broad support for their implementation in this case, were varied. Some of the then stated reluctance centred around the potential increased cost in billing. Systems are notably more advanced now than what they were then, and our community is far more computer and web literate. It should not be presented as an impediment now.

One way of lowering any potential cost burden is setting the default billing at 2 people. Many single and double occupancy households would fall within this category and not require any adjustment by their water authorities. Residences with 3 or more persons living full time at the address could apply to have their bill adjusted as required to create a larger initial allocation within the first pricing block. Medicare numbers would suffice to include individuals into the ‘per capita’ adjustment. This would align with the notion of having equitable access to affordable water as a driver of health within the community.

Business tariffs could be set at the second tier of pricing. This strengthens the notion of the primary role of water authorities is to supply our citizens with a just allocation of water at a modest, non-profiteering cost and that profit making entities which can claim expenses such

as water bills be subjected to a more commercial rate. It follows that traditional, low-cost sources of drinking water should be firstly directed at fulfilling the basic need of our citizens.

It should be stated that PALM acknowledges and applauds Barwon Water's current efforts at addressing those customers in financial distress. Their pricing submission seeks to increase the support provided which is welcome. But for most in our community there is an understandable reluctance to reach out for assistance. Lowering the initial block of water serves to reduce the chances of having to ask for support in paying their bill. It is an issue of human dignity.

PALM also recognises there has been a past reluctance by the ESC to be prescriptive about pricing regimes. However, the WATER INDUSTRY REGULATORY ORDER 2014 does state:

> 10. Price determinations (a) Before the commencement of a regulatory period, the Commission must make a price determination which determines the maximum prices that a regulated entity may charge for prescribed services, or the manner in which the regulated entity's prices are to be calculated, determined or otherwise regulated, during the regulatory period.
> *https://www.water.vic.gov.au/__data/assets/pdf_file/0033/536298/Final-WIRO-2014published-in-GG-on-23-October-2014.pdf*

The term "otherwise regulated" would appear to allow for the ESC to at least put the question, not only whether the implementation of per capita inclining block tariff would be an appropriate vehicle to reduce price shock as water authorities inevitably move to more expensive manufactured sources of water, but also whether the option had been adequately put to their customers.

As stated in the ESC Chairperson's overview in *WATER PRICING FRAMEWORK AND APPROACH Implementing PREMO from 2018 October 2016 pg ii:*

> "Our framework seeks to move away from the regulatory obsession with defining processes. Instead, water businesses will be required to express their entire proposals in terms that reflect the outcomes they will be delivering to their customers. The future will be about customer outcomes rather than regulatory gratification. There will be no successful regulatory outcomes for service providers if they do not couch their proposals in terms that reflect the concerns, priorities and preferences of their customers."

While it is likely too late in the process to explore this question in this round of pricing submissions PALM would welcome a recommendation from the Commission that the issue of per capita Inclining block tariffs be explored by relevant water authorities and put to their customer groups as a preference during the next pricing review.

PALM thanks the Commission for their consideration of the matters raised above.

Regards,

Cameron Steele

Coordinator

People for a Living Moorabool

Note: While People for A living Moorabool are appreciative with the manner with which Barwon Water has tackled issues of sustainability and their environmental obligations in recent years, we are not assisted in any manner by Barwon Water and the views expressed above are entirely our own.