

05 May 2023

## Submitted via Engage Victoria

Water Team

Essential Services Commission

Level 37, 2 Lonsdale Street

Melbourne VIC 3000

Dear Sir/Madam

## Feedback on standard draft decisions: 2023 Water Price Review

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on the standard draft decisions released by the Essential Services Commission (**ESC**) as part of the 2023 Water Price Review.

Consumer Action has actively engaged throughout the 2023 price review, including through meetings with staff from the water businesses and the ESC, attendance at public forums, providing comments to media, and making written submissions.

This feedback follows on from our earlier submission in November 2022<sup>1</sup>. As with our previous submission, we offer high-level observations applicable to all the standard draft decisions. Where we have identified areas of concern (or good practice that we believe should be more broadly applied) we have referred to the specific businesses concerned. Otherwise, our comments can be taken as applicable to all businesses. Several comments are also directed to the ESC to consider as part of future reviews. This submission comments on the impact of the draft decisions on prices and customer bills, businesses' approach to customer engagement, their proposed hardship responses, service standards and Guaranteed Service Levels, the data used to model demand, and the benefits associated with a uniform regulatory period.

More detailed comments on these issues are provided below.

### About Consumer Action

Consumer Action is an independent, not-for profit consumer organisation with deep expertise in consumer and consumer credit laws, policy, and direct knowledge of people's experience of modern markets. We work for a just marketplace, where people have power and business plays fair. We make life easier for people experiencing vulnerability and disadvantage in Australia, through financial counselling, legal advice, legal representation, policy work and campaigns. Based in Melbourne, our direct services assist Victorians, and our advocacy supports a just marketplace for all Australians.

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<sup>1</sup> See: Consumer Action Law Centre (2022), [Initial feedback: 2023-28 Water Price Review](#).

## **Prices and customer bills**

We are pleased to see prices either remaining steady or trending downward in most of the draft decisions. This will be welcome news for Victorians, many of whom are finding it increasingly difficult to cover their day-to-day expenses given the current cost-of-living crisis. Comment on several aspects of businesses' submissions specific to pricing and tariffs is provided below.

### Tariffs

As noted in our initial feedback, tariffs have generally remained unchanged in price submissions, particularly the balance between fixed and variable charges. We support this outcome, given the outsized impact on tenants (who tend to be less wealthy than homeowners) when more weight is assigned to usage-based charges. While we previously noted concerns about changes to the fixed and variable balance proposed by Wannon Water and Westernport Water, we are satisfied from the ESC's draft decisions that these businesses have taken steps to address any impacts on renters and/or customers experiencing vulnerability resulting from these changes.

We originally noted concerns with the digital meter tariff proposed by Goulburn Valley Water in our initial feedback. We therefore strongly support the ESC's draft decision not to accept this tariff, and to require that Goulburn Valley Water provide information clearly identifying the benefits of digital meters to new customers if it wishes to proceed.

### Addressing inflation

We note that the ESC has asked all businesses to consider the current high inflation environment and the impact on customer prices and bills in their responses to the draft decision. In addition to examining how their own costs will be impacted (or not) by inflation, we suggest that businesses also consider how revenue is recovered over the regulatory period to avoid bill shock. To this end we point to submissions by several businesses which have either concentrated decreases in year one, or deferred larger increases until future years. In our initial feedback we noted GWMWater's proposal to reduce prices by 7.9% in year 1, followed by marginal increases thereafter. We again suggest that this approach could be more widely adopted by other businesses to address high inflation, again with the caveat that price increases in future years resulting from this approach should not exceed CPI. We also note proposals by South Gippsland Water and Wannon Water to under-recover against their forecast costs and as a result charge lower prices to address affordability concerns. We suggest this as another approach businesses could adopt to address inflation and cost-of-living pressures impacting their customers.

### Revenue requirements

We are supportive of the ESC's role in assessing the proposed operating and capital expenditure of each water business. We believe the ESC is well placed to perform this role and to ensure water businesses charge no more than is necessary to efficiently run their business. In line with this view, we strongly support the ESC's decision to reduce the revenue requirement for all the businesses participating in the current price review based on review of their proposed expenditure. This is of critical importance for Victorian consumers as lower revenue requirements ultimately means less money needs to be recovered from customers through the prices they are charged.

### Efficiency improvement rate

Related to the ESC's role in assessing businesses' proposed expenditure, we also strongly support the requirement for businesses to propose an annual cost efficiency improvement rate. As providers of essential services, it is critical that water businesses are pursuing economic efficiency in order to maintain downward pressure on prices. In line with this view, we agree with the ESC's draft decision that both East Gippsland Water and Goulburn Valley Water must propose higher efficiency improvement rates (or provide additional information to justify their application of a lower rate) and agree with the ESC that meeting a 1% efficiency improvement rate is a reasonable expectation for these businesses.

## New Customer Connections

As we raised in our initial feedback, we were pleased to see most businesses increase charges for New Connection Costs (**NCCs**). Existing customers should not cross-subsidise developers. We therefore support the ESC's decision that several businesses need to identify how they plan to full cost recovery in these charges, and that in calculating these charges businesses either use the methodology proposed by the ESC or provide justification of why their methodology is preferable (and also does not disadvantage current customers).

## **Engagement**

As reflected in our initial feedback, we have been pleased with the overall quality of businesses' engagement with their customers during this price review process. We consider this to be a function of the PREMO water pricing approach, which places "an emphasis on the role of customer engagement to inform and influence the price submissions of water businesses."<sup>2</sup>

This positive feedback also extends to businesses' review of performance and their proposed outcomes for the coming regulatory period. We consider that price submissions generally indicated strong performance in the current regulatory period (2018-2023), and that customers were engaged in the development of outcomes and measures for the coming regulatory period (2023-2028). While the quality of engagement between businesses varied, on balance we believe that businesses have improved their customer engagement, and this is reflected in the quality of their submissions.

We hope that the PREMO framework will continue to support better outcomes for Victorian water customers going forward. Effective customer engagement is central to delivering on this front. To support ongoing improvements to customer engagement in future reviews, we hope that the ESC will take lessons on emerging good practice out of this price review and revise the guidance paper and assessment tool accordingly.

## **Hardship**

As noted earlier in this submission, huge numbers of Victorians are facing increased financial stress during the current cost-of-living crisis. The extent of this crisis is reflected in demand for financial counselling services - calls to our financial counsellors through the first few months of 2023 are 30% higher when compared to the same time last year.

Water businesses investing in their hardship programs is critical to supporting Victorians facing difficulty paying their bills to get through the coming regulatory period, a time when thousands of people will be doing it tough. As we noted in our initial feedback, we were strongly supportive of proposals from water businesses including Coliban Water, Central Highlands Water and East Gippsland Water to significantly increase their investment in hardship assistance during the 2023-28 regulatory period. Conversely, we remain concerned that several businesses (Gippsland Water, GWMWater, Lower Murray Water, and South Gippsland Water) do not appear to be proposing increased investment in their hardship programs.

We expect that the continuing cost-of-living crisis will result in more people experiencing hardship during the coming regulatory period. We acknowledge feedback from the ESC in the draft decisions that businesses may have sought to address the interests of customers experiencing vulnerability in other ways. While approaches like smoothed price paths and/or increased promotion of hardship programs are welcome, there will always be a cohort of customers who simply cannot afford to pay their bill. People experiencing acute financial hardship will

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<sup>2</sup> Essential Services Commission (2021), [2023 water price review: Guidance paper](#), p.3.

require support, particularly during the current cost-of-living crisis. We therefore recommend that businesses review their investment in their hardship programs when responding to the ESC's draft decisions.

### **Service standards and Guaranteed Service Levels (GSLs)**

In our initial feedback, we noted that customers should reasonably expect service standards to improve over time, and that we hoped that businesses would increase the rebate associated with their GSLs to ensure that their value is maintained into the future. We note that Barwon Water, Central Highlands Water and Coliban Water have all committed to increase the rebates associated with their GSLs, while other businesses have added new GSLs as an alternative approach to delivering added value to their customers.

While we note the ESC's decision to approve the proposed GSLs given that businesses have consulted on them with their customers, we ask the ESC to review any instances where businesses have not proposed to deliver better value to their customers either through expanding the number of GSLs and/or increasing the associated rebate, before making a final decision.

We strongly support the ESC's decision to direct Goulburn Valley Water to increase the proposed rebate of \$100 for the mandatory GSL relating to using reasonable endeavours to contact a customer before restriction and legal action. We noted our concern about this proposal in our initial feedback and are pleased to see the ESC make clear that Goulburn Valley Water must raise it to at least the mandatory minimum of \$300 specified under clause 20(c) of the Water Industry Standards.

### **Demand forecasts**

As we raised in our initial feedback, COVID-19 has had a significant impact on water usage and demand. We note that the ESC has mentioned in all draft decisions that, "Since lodgement of its price submission, updated Victorian Government population and dwelling growth estimates have been made available to water businesses." While we believe it is positive that businesses are using the most up-to-date data possible given COVID-related impacts on demand, we note that without being able to view this data we cannot make any assessment of it. In future reviews, we hope the ESC will give precedence to publicly available information wherever possible.

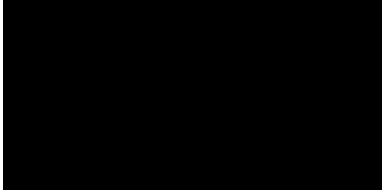
### **Regulatory period**

As we noted in our initial feedback, a five-year pricing period provides customers with predictability around billing and services and avoids the costs incurred with a shorter period. We are also of the view that the regulatory period should be uniform for all business (except in special circumstances), as general good practice. We consider that it is likely easier to generate public awareness and engagement when all water businesses state-wide are undertaking their review of prices at the same time. Having a uniform period also means that external factors which may impact on the content of price submissions (such as current cost-of-living pressures and associated hardship responses) are being considered by businesses at the same time.

Given the above reasons, we strongly support the ESC's decision to approve a five-year regulatory period for all businesses participating in this price review.

Thank you again for the opportunity to provide comment on the draft decisions. Please contact Luke Lovell, Senior Policy Officer, on [REDACTED] or at [REDACTED] if you have any questions about this submission.

Yours Sincerely,



Stephanie Tonkin

Chief Executive Officer

**CONSUMER ACTION LAW CENTRE**

