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Essential Services Commission
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**Submission to ESC 2008 Water Price Review – Regional and Rural Businesses Water Plans
2008 -2013 – Draft Decision (March 2008)**

The Consumer Utilities Advocacy Centre (CUAC) welcomes the opportunity provided by the Essential Services Commission to put forward a response to the *2008 Water Price Review – Regional and Rural Businesses Water Plans 2008-2013 – Draft Decision* (March 2008) (Draft Decision).

CUAC is an independent consumer advocacy organisation which ensures the interests of Victorian electricity, gas and water consumers - especially low income, disadvantaged, rural and regional, and Indigenous consumers - are effectively represented in policy and regulatory decisions. This submission is also supported by the Consumer Action Law Centre.

We are disappointed that many of the issues put forward in our submission on the water businesses' Water Plans have not been addressed in detail in the Draft Decision, particularly where we raised specific questions and concerns in relation to an aspect of a Water Plan.

Price Paths and Price Changes

Given the likelihood of significant annual increases for the price of water over the forthcoming regulatory period, coupled with general price rises for a variety of household expenses, CUAC strongly supports the ESC's view that an approach which attempts to minimise large price shocks to customers is most likely to be in the best interests of customers¹. The ESC recognises that the impact on consumers, particularly low-income households, can potentially be severe.

For that reason CUAC recommended in our submission to the Issues Paper, that the Commission institute a price cap for residential customers at an agreed maximum level above which residential prices are not permitted to rise. Such a move would be fully in line with the Government's intervention in metropolitan residential water prices.

The Government has announced an increase to concessions in 2008/09 of 14.8% plus CPI to a maximum cap of \$182 per annum. Clearly this will be insufficient to provide real relief to low-income households facing price increases greater than that amount.

The ESC retains the authority to disallow prices that are not in accordance with the WIRO pricing principles. We strongly encourage the Commission to not approve price paths that will result in price shocks unless it is certain that

- the impact on consumers is adequately understood by the customers of those water companies, and

¹ Essential Services Commission, 2008, *2008 Water Price Review, Regional and Rural Businesses Water Plans 2008-2013 – Draft Decision*, March, p 124.

- companies proposing a price path with steep price rises in the first year have effective hardship programs in place to meet rising demand.

The ESC's Water Performance Report has clearly demonstrated that there are companies who take an aggressive and unhelpful position in relation to customers in hardship – we would be particularly concerned about Goulburn Valley, Coliban Water and Lower Murray Water in that regard.

Financial Hardship

Companies' tariffs must be developed with affordability as a central criterion, to ensure access to water. It is therefore entirely appropriate that the ESC's approval of price changes and price paths take into account the implications of price rises for households' disposable income and their capacity to meet regular household expenses. Consumer prices are rising rapidly, with inflation currently recorded at over 4 per cent and likely to remain high over the next two to three years². Rural and regional households are particularly vulnerable.

The financial hardship experienced by many households was illustrated in the recent release of the Commission's annual report on urban water and sewerage businesses' performance. The number of approved hardship grants by businesses in 2006-2007 increased by 1,537 to 11,839³. The Commission's 2006/07 Water Performance Report also suggests to us that many water businesses hardship policies are not effective, particularly in regional areas. The high levels of restriction and legal action, and the length of time restrictors are left in place, indicate that these water businesses' collection policies do not reflect the need to assist low-income consumers but are instead focused on punitive measures. Considering that water is fundamental for public health and is a human right, we believe this is inappropriate.

Companies must develop and implement comprehensive hardship programs to minimise the impacts of future price rises and ensure families retain safe and affordable access to water, particularly at a time when household budgets are under pressure and water prices are likely to rise significantly in the forthcoming regulatory period.

The Commission must therefore closely monitor how businesses are addressing customer impacts and ensure that hardship policies are properly framed and actually ameliorate adverse impacts of price rises for households.

The rise in the Water and Sewerage Concessions for low-income households, providing an increase in the cap of 14.8 per cent plus CPI will not adequately deal with affordability pressures. This is most evident for customers of regional urban and rural water businesses where average household water consumption (207 kL per household per year) and average household water bills (average \$650 per year) are higher than for metropolitan Melbourne customers (171 kL and \$500)⁴. It is also unclear how the concession will be indexed after 2008/09, with the Government providing no commitment as to whether the concession amount will remain in parity with price increases. This will potentially further exacerbate inequities between regional customers and metropolitan customers.

Given the degree of uncertainty in relation to affordability, and our expectation that companies will see significantly more consumers experiencing financial hardship, we recommend that the Commission consider requiring companies to report on a more regular basis on affordability measures – a six monthly public report would enable consumers and the ESC to more closely track consumers' experience with the new price increases, and provide information to government to consider in making its decisions about the level of concessions.

Dealing with uncertainty

We welcome the Commission's proposed mechanism to review prices, which we recommended in our earlier submission. When it becomes clear that there is a significant revenue shortfall, there should be the capacity to re-open a price determination in order to reduce the risk of a price shock to consumers in the next regulatory

² Reserve Bank of Australia, Media Release, No: 2008-07, *Statement by Glenn Stevens, Governor, Monetary Policy.*, 6 May 2008.

³ Essential Services Commission 2008, *Performance of Urban Water and Sewerage Businesses 2006-07*, April, p 29-30.

⁴ *Ibid*, p. 12-13.

period, as well as to ensure that a company's actions are subject to regulatory oversight. Similarly, when prices have been set too high (due to under-estimated demand), the ESC needs to intervene promptly to ensure that customers are paying the appropriate tariff.

Importantly, however, the nature of public consultation on annual changes in tariffs must be robust and accurately record and reflect consumer views, particularly given the pre-existing general pressures on affordability and household expenses.

Cost Allocation and Price Paths

- Gippsland Water

In the study funded by CUAC into the businesses' water plans, it was recommended that the costs of the proposed Water Factory be recovered from the major water users in the region, not from the wider residential customer base, in line with standard cost and price allocation policies.⁵

Customers are not privy to the commercial arrangements in place, and therefore rely on the Commission to ensure costs are equitably allocated and businesses are not disproportionately loading costs to households. We encourage the ESC to ensure that the level and nature of cost allocation for major projects between residential and non-residential users is equitable and in alignment with the WIRO principles.

- Barwon Water

While the Melbourne Interconnector pipeline will remain in the Water Plan for Barwon Water, we maintain that the operating costs for the project, which are unknown at this stage, be subject to a formal review process and their price impacts deferred until the price period commencing in 2013.

Guaranteed Service Levels

We remain disappointed that a large majority of the water businesses will not be applying a GSL scheme during the regulatory period, but applaud those that will be; namely, Barwon Water, Central Highlands Water, Western Water and Wannon Water. We strongly support the view that a GSL scheme should be introduced by those other businesses, given that around 90 per cent of the Victorian community (including customers of metropolitan water businesses) will be provided with a guaranteed minimum level of service.

The Commission should strongly encourage those businesses that will not be applying a scheme to institute one.

Finally, we view Western Water's GSL payment of \$100 for sewerage spills within a house as inadequate. For the purpose of uniformity, it should be set at the same level as with the other companies' payment of \$500 for the same event.

Drivers of forecast operating expenditure

We welcome the Commission's decision to institute common costs across industries in relation to the drivers of forecast operating expenditure, particularly setting a benchmark cost of carbon and allowing a step change in energy prices of between 10 to 15 per cent to all water business.

Yours sincerely



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⁵ RM Consulting Group, "Analysis of Regional Water Companies' Water Plans : 2008/09 to 2012/13 : Final Report" Dec. 2007, p8. Available on the CUAC website at <http://www.cuac.org.au/>