

Energy and Water Ombudsman (Victoria) Limited

ABN 57 070 516 175

19 February 2007

Water Price Review
Essential Services Commission
Level 2 35 Spring Street
MELBOURNE VIC 3000

By email: water@esc.vic.gov.au

Dear Commissioners

Re: 2008 Water Price Review Consultation Paper: Framework and Approach

Thank you for the opportunity to comment on the Essential Services Commission's (ESC's) *2008 Water Price Review Consultation Paper: Framework and Approach (December 2006)* ('the Consultation Paper').

The Energy and Water Ombudsman (Victoria) (EWOV) wishes to comment on two chapters in the paper, namely:

- Chapter 3 – Service Standards and Guaranteed Service Levels (GSLs)
- Chapter 7 – Customer Contributions.

Chapter 3 – Service Standards and GSLs

Basis for service standards (3.2.4)

EWOV supports the approach of consulting customers, as well as using historical data, to determine appropriate service standards. Reliance on historical data alone could lead to the entrenchment of unsatisfactory service standards, while reliance on customer consultation alone could mean that service standards were set at a level that is not commercially viable. Using both sources for setting service standards makes it more likely that the standards will take account of customer needs while being realistic about the effect of service standards on prices.

Scope for harmonisation of service standards targets (3.2.7)

EWOV accepts that the differences between metropolitan and regional businesses and the differences among Regional Urban Water Authorities (RUWAs) are such that achieving harmonisation of service standards is very difficult indeed. However, it is desirable that

steps be taken towards this, so that service standards are equitable for customers across Victoria, as far as possible. EWOV suggests that the ESC should be closely scrutinising any suggested service standards that fall below those suggested by another comparable RUWA.

Monitoring Water Plan outcomes (3.2.7)

EWOV strongly supports the ESC's performance monitoring of water businesses and looks forward to its extension to rural water businesses.

Should all businesses be required to implement GSLs? (3.3.2)

EWOV supports the ESC's view (at page 32) that there is merit in all urban water businesses – that is, the metropolitan water retailers and all RUWAs – adopting a GSL scheme for the regulatory period commencing July 2008.

EWOV accepts the ESC's position that it is premature to require rural water authorities to adopt GSL schemes given the absence of a robust performance monitoring framework and the lack of customer consultation to date.

EWOV notes that RUWAs have been subject to the ESC's performance monitoring framework, have customer consultation mechanisms in place and have had the chance to see how the GSL schemes of Barwon Water and Central Highlands Water have operated. As such, EWOV suggests the onus should be on any RUWA to argue why it should not be required to introduce such a GSL scheme in the 2008 regulatory period. EWOV acknowledges that extreme drought conditions in particular regional areas may constitute a reason for arguing that GSLs should not be introduced at this time, but the base position should be that the ESC expects either a GSL scheme or good reasons as to why it is inappropriate from July 2008.

Non-residential customers (3.3.3)

EWOV sees no reason why GSL schemes should not apply to non-residential customers. Small businesses, such as shops or cafes, may be more adversely affected by unplanned interruptions, for example, than a residential household. Nor do they necessarily have more ability to negotiate a more favourable outcome for themselves.

EWOV supports the ESC's observation (at page 30) that the underlying objective of GSLs is not to compensate customers for poor performance. Rather, it is to provide an incentive for water businesses to address the incidence of inferior service performance for the worst affected customers. As such, it cannot be expected that GSL payment levels will fully compensate business customers for loss of trade. EWOV's view is that the objective of GSLs means that it is generally appropriate for GSL payment levels to be the same for residential and non-residential customers. It may also be difficult for water businesses to administer a scheme that paid different GSL amounts depending on the type of customer.

GSL events (3.3.4)

In addition to the GSL events listed in Table 3.1 (on page 33), EWOV suggests there should also be a GSL for missed appointments, as there is in the Victorian electricity and natural gas industries.

EWOV also confirms its view that, to ensure equitable outcomes for customers, the payment of GSLs should be automatic and not dependent on a customer lodging an application.

GSL payment levels (3.3.5)

The ESC states (at page 33) that, 'it [is] important that payment levels are set so that they limit the cost of the scheme'. Whilst this is an acceptable and necessary consideration, GSLs should not come to be seen by water providers as inflexible limits on the compensation payable to particular customers who are particularly affected by an event.

When a water provider is considering its response to a customer affected by an event, all surrounding issues – of which GSL entitlement is only one – need to be taken into account to arrive at a fair and reasonable outcome.

Chapter 7 – Customer Contributions

Proposal to increase cap on customer contributions

EWOV notes that the ESC's initial position (as stated on page 95) is that there is merit in increasing the cap on customer contributions from \$500 to \$1,000 per lot for water and \$1,000 per lot for sewerage.

EWOV notes that when the \$500 cap was introduced in the first regulatory period, it resulted in some customer complaints about a lack of prior notification of the change – that is, that if they had waited, their customer contributions would have been lower. Based on this experience, EWOV wishes to emphasise the importance of clear prior notification being provided to customers of any increase in the cap from July 2008.

We trust that the above comments are helpful and look forward to further opportunities to contribute to the ESC's 2008 Water Price Review. If you have any questions, please contact Stephen Gatford, Manager Public Affairs and Policy, on (03) 9649 7599.

Yours sincerely



Fiona McLeod
Energy and Water Ombudsman (Victoria)