

# Energy and Water Ombudsman (Victoria) Limited

ABN 57 070 516 175

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9 May 2008

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

By email: [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)

Dear Commissioners

## **Re: 2008 Water Price Review: Regional and Rural Businesses Water Plans 2008-2013 —Draft Decision (March 2008)**

Thank you for the opportunity to comment on the Essential Services Commission's (ESC's) *2008 Water Price Review — Regional and Rural Businesses Water Plans 2008-2013, Draft Decision (March 2008)* ('the draft decision').

The Energy and Water Ombudsman (Victoria) (EWOV) wishes to comment on the following aspects of the draft decision:

- Forthcoming price increases and changes to tariff structures
- Guaranteed Service Levels (GSLs)
- New customer contributions

### **Forthcoming price increases and changes to tariff structures (Sections 8 and 9 of volume 1 of the draft decision)**

In our 15 January 2008 comments on the ESC's Issues Paper, we noted the substantial nature of the price increases proposed by the regional urban water corporations (RUWCs), to apply from July 2008.<sup>1</sup>

As the ESC notes (at page xiv), the ESC's draft decision will, if implemented, result in higher price increases than most of the RUWCs had themselves proposed. Table 2 (on page xvii) shows that eight of the 13 RUWCs will have annualised average residential bills of over \$1,000 by 2012-13; prior to the ESC's draft decision, it was five of 13.

The draft decision also provides scope for the RUWCs to pass through to their customers the costs of capital projects (noted at page xi) and the costs of a national carbon emissions trading scheme (noted at page 53), once their timing and costs are

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<sup>1</sup> EWOV's 15 January 2008 comments on the ESC's *2008 Water Price Review: Water Plans – Issues Paper (December 2007)* are on [www.ewov.com.au](http://www.ewov.com.au), under 'Responses to regulatory authorities'.

more certain. This suggests that, in fact, the vast majority of RUWCs (perhaps 11 of 13) will have annualised average residential bills of over \$1,000 by 2012-13.<sup>2</sup>

There are also some significant changes to tariff structures, to apply from July 2008. Three RUWCs are proposing to introduce inclining block tariffs for the first time (as noted at page 131).

Most RUWCs are planning to increase the proportion of revenue recovered from the usage component of their tariffs, rather than their fixed service charges (as noted from page 135). As noted (on page 147), this will shift costs from residential landlords to residential tenants – as tenants pay usage charges (if there is a separate meter), whereas owners pay fixed access charges for water. Tenants who are unable to convince their landlords to improve the water efficiency of fixtures<sup>3</sup> will find it especially difficult to reduce their water usage to offset increased costs.

The significance of the forthcoming price increases and changes to tariff structures is very likely to increase the number of RUWC customers with complaints or who are experiencing financial hardship. As such, EWOV wishes to:

- restate the importance of RUWCs' hardship policies and programmes being adequately resourced to meet increased demands<sup>4</sup>
- also note the importance of RUWCs' internal dispute resolution processes (including complaint handling teams) being adequately resourced to meet increased demands
- repeat its suggestion that the ESC highlight to Government (including the Department of Human Services' Concessions Unit) what changes would be needed to the structure of water concessions to prevent their value being eroded as a result of price increases and shifts in tariff structures
- encourage RUWCs to consult widely, including with the ESC, EWOV and key consumer agencies, on how best to provide targeted information to their customers about the price increases and changes to fixed and usage charges
- ask whether some price increases and tariff changes should take effect from 1 January 2009, rather than 1 July 2008, to allow for communication to customers and for customers to have time to adjust their usage behaviours, where possible.

It is not clear from the level of detail in volumes 1 or 2 of the ESC's draft decision whether RUWCs or the ESC have specifically considered the operating expenditure that will be required to adequately resource RUWCs' hardship policies and programmes and internal dispute resolution processes. Notwithstanding the recently announced changes to Victorian Government concessions<sup>5</sup>, RUWCs' hardship

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<sup>2</sup> If these costs, once known and passed through, add an average of \$60 to each customer's annual bills, then East Gippsland Water, North East Water and Wannon Water will also have annualised average residential bills of over \$1,000 by 2012-13 (see Table 2).

<sup>3</sup> For example, tenants who cannot convince their landlord to pay for or consent to the installation of a water efficient showerhead.

<sup>4</sup> For example, resources should be provided to ensure RUWCs can (1) assist tenants in larger households, who may be particularly impacted by higher usage charges and new inclining block tariffs (Yarra Valley Water's Large Household Support Program provides a useful model for this support), and (2) work effectively with the Office of Housing to improve the water efficiency of public housing.

<sup>5</sup> Changes to energy and water concessions were announced in the 2008-09 Victorian State Budget on 6 May 2008 – including an increase in the water and sewerage charge concession cap from July 2008

policies and programmes and internal dispute resolution processes will very likely face increased demands from July 2008 – June 2013.

EWOV's comments are, in part, driven by the goal of preventing complaints. A significant number and percentage of water complaints received by EWOV already involve affordability issues.<sup>6</sup> As water prices substantially increase and tariffs change, the number of water complaints to water companies and to EWOV about affordability issues is very likely to increase – particularly from disadvantaged areas of regional Victoria.<sup>7</sup> Ensuring adequate resourcing for hardship programmes and complaint handling teams is not only fundamental to good customer service; it will also help prevent some complaints coming to EWOV in the first place.

### **Guaranteed Service Levels (GSLs) (Section 2.4 of the draft decision)**

In our 15 January 2008 comments on the ESC's Issues Paper, we urged the ESC to review the costings and analysis of the RUWCs that are not proposing to introduce GSL schemes.

As such, we welcome the ESC's proposal (discussed at pages xxix and 30) to consult with these RUWCs and to allow for the implementation of a GSL scheme by all urban water companies over the next 12 to 24 months, subject to further analysis and monitoring.

It is EWOV's view that the existence of GSLs – when well promoted to customers via Customer Charters and fact sheets, and when related events arise – can prevent some complaints from arising. When a customer receives a GSL, they receive recognition from their water company (or other utility) that the service they experienced was significantly below average (as the ESC notes at page 22). Customers who have received a GSL are still entitled to complain to their water company or EWOV, but some customers will take the view that the GSL is sufficient recognition and resolves the issue for them. As such, in assessing the costs of implementing a GSL scheme, EWOV urges RUWCs and the ESC to take these 'avoided costs' into account – that is, reductions in complaint handling costs.

### **New customer contributions (Section 12.1 of the draft decision)**

In our 15 January 2008 comments on the ESC's Issues Paper, we noted that the proposed increases to new customer contributions are significant – especially for lots

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and the introduction of the Water Wise program from January 2009. For more details, see <http://www.cyf.vic.gov.au/concessions/home/budget-announcement-!>

<sup>6</sup> In the water cases received by EWOV from July – December 2007, billing issues accounted for 45% of the issues and credit issues a further 7%. In regional urban water cases, the most common sub-issues included billing fees and charges, unexpectedly high bills and credit payment difficulties.

<sup>7</sup> Using 2006 Census data, the Australian Bureau of Statistics (ABS) has noted that 38 of the 40 most disadvantaged Council/Shire areas in Victoria are in regional Victoria. See the ABS' publication 2033.0.55.001 - *Socio-economic Indexes for Areas (SEIFA), Data only, 2006* (specifically Table 3 entitled *Statistical Local Area (SLA) Index of Relative Socio-Economic Disadvantage, 2006*) on [www.abs.gov.au](http://www.abs.gov.au).

in the third category, where the cap on charges will increase from \$500 to \$6,600 per lot.

We wish to restate our suggestion that these changes should not come into effect until 1 January 2009 – so as to allow sufficient time to notify customers of the change.

This suggestion is based on our experience of receiving complaints in the second half of 2005 from customers who felt they had been unfairly caught out by changes to new customer contribution charges.<sup>8</sup> Allowing more time to notify customers of the change will prevent some complaints from arising.

We trust that the above comments are helpful. If you have any questions, please contact Stephen Gatford, Manager Public Affairs and Policy, on (03) 9649 7599.

Yours sincerely

A handwritten signature in cursive script that reads "Fiona McLeod".

**Fiona McLeod**  
**Energy and Water Ombudsman (Victoria)**

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<sup>8</sup> The ESC's *Urban Water Price Review 2005-2008: Final Decision*, released 16 June 2005, decreased new customer contributions to \$500 per lot, with effect from 1 July 2006.