Review of Metropolitan Water Agency Prices
Independent Pricing and Regulatory Tribunal
PO Box Q290
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By email ipart@ipart.nsw.gov.au

28 April 2006

Dear Dr Keating

**Review of Metropolitan Water Agency Prices from 1 July 2006 - Gosford City Council and Wyong Shire Council – Draft Determination**

Please find attached a submission to the Draft Determination prepared by the Public Interest Advocacy Centre. PIAC has made a series of recommendations to the Tribunal with regard to improving the community’s understanding of the social impact of the determination, measures to mitigate equity concerns and the protection of consumers generally. Please feel free to contact me, should the Tribunal require any additional information or clarification with regards to these recommendations. Thank you for the opportunity to contribute to this important determination.

Yours sincerely
Public Interest Advocacy Centre Ltd

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Submission to IPART on Gosford City Council and Wyong Shire Council Prices of Water Supply, Wastewater and Stormwater, Draft Determination

April 2006

Elissa Freeman  
Policy Officer

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Introduction

The Public Interest Advocacy Centre (PIAC) seeks to promote a just and democratic society by making strategic interventions on public interest issues.

PIAC is an independent, non-profit law and policy organisation that identifies public interest issues and works co-operatively with other organisations to advocate for individuals and groups affected.

In making strategic interventions on public interest issues PIAC seeks to:

• expose unjust or unsafe practices, deficient laws or policies;
• promote accountable, transparent and responsive government;
• encourage, influence and inform public debate;
• promote the development of law—both statutory and common—that reflects the public interest; and
• develop community organisations to pursue the interests of the communities they represent.

Established in July 1982 as an initiative of the Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only, broadly-based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Centre Funding Program. PIAC generates approximately forty per cent of its income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

Social Impact of the determination

1.1 Water affordability in Gosford and Wyong

PIAC’s community stakeholders place considerable importance on the social impact of new charges. The requirement on the Tribunal to consider the social impact of its determination enables deliberation on the specific distributional impact of its pricing decision. In the past, the Tribunal has explicitly analysed the social impact of price determinations using demographic and consumption based data. This has contributed to the pace of revenue recovery and the structure and direction of public policy decisions more broadly.

PIAC and NCOSS have previously highlighted the high level of social and economic disadvantage present in Gosford and Wyong communities. In PIAC’s view the draft determination does not adequately represent these concerns. The final determination needs to better reflect the unique social profile of the region, as well as the region’s experiences of utility disconnection and low average water consumption.

The Central Coast region has a high representation of low-income households, combined with high unemployment and large numbers of pensioners. While population growth is continuing at an above average rate, there is no indication that the socio-economic balance in the region will improve. Increases in the real costs of essential services in these communities stand to have a big impact on the financial resilience of a large number of households. Selected statistics for Gosford and Wyong Local Government Areas are in the table below.
Demographic indicator | Gosford Council | Wyong Council | NSW average |
--- | --- | --- | --- |
Proportion of total population aged 14 and under | 20.3% | 21.6% | 19.9% |
Proportion of total population aged 65 and over | 17.5% | 17.6% | 13.3% |
Unemployment rate | 7.4% | 10% | 7.2% |
Median weekly individual income | $363 | $306 | $386 |
Annul population growth rate | 1.2% | 2.4% | 1.1% |
Total number of pensioners (age, disability, Newstart, parenting youth) | 38,988 | 41,849 | n/a |

Table 1: Selected information from the Central Coast: Regional Profile & Social Atlas – 2004, Australian Bureau of Statistics

The draft determination acknowledges PIAC and NCOSS’ view that “the customer impact was likely to be greater in the Central Coast given the higher than average proportion of low income families in the area”. Research commissioned by PIAC in 2005 suggests that it exactly those households who are at greatest risk of utility disconnection for non-payment (Ross et al 2005). The research surveys households in the Sydney region who had their water supply restricted due to incapacity to pay. The data identifies households who are at risk of supply restriction for non-payment, specifically;

- Families represent 90% of households who have access to water restricted due incapacity to pay, and
- 75% of disconnected households were paying off a mortgage

Recent legislative changes that enable the Department of Housing to charge tenants for their actual water consumption are also pertinent to the determination. The new legislation applies to separately metered households as well as those without an individual meter, while private tenants remain liable for water charges only where the tenancy is separately metered, subject to their tenancy agreement. These reforms make tenants an important consideration in the social profile of the region.

The ongoing drought presents an additional factor in the region’s social profile. Gosford and Wyong communities are among the most water conscious in the state, with average consumption of just 188kL per annum, compared with Sydney’s average consumption of 249kLpa. The situation means that households have already reduced their consumption to their minimum levels. The draft determination suggests that higher water charges will send a water conservation signal but the low price elasticity of demand for non-discretionary water use suggests otherwise. PIAC has strongly argued that without financial assistance to buy water efficient appliances households on the Central Coast will not be able to reduce water consumption beyond their current levels.

The final determination needs to better reflect the unique social profile of the region, as well as the region’s experiences of utility disconnection and water consumption.
Recommendation 1:
That the final determination take account of;
- A great number of households in the Gosford/Wyong region are being vulnerable to financial hardship.
- Young families with mortgages are at a high risk of water supply restriction for non-payment.
- The associated revenue risk to the councils from bill default and late payments.
- Ongoing drought and very low average water consumption which means that households are unable to further reduce water consumption in response to any water conservation signal.
- The likelihood of higher rental costs as increased charges are passed on to both Department of Housing sand private tenants.

1.2 Consideration of the social impact of price increases in the draft determination

It has been widely accepted in Australia that water affordability is best understood with reference to the experiences of vulnerable classes of customers such as pensioners, large low-income households and tenants, in comparison to the average-consuming household. Previous water price determinations have established a precedent whereby price increases for these customer segments are mitigated through social programs designed to offset identifiable distributional inequities. The relatively low cost of providing these programs is shared across the customer base and positively contributes to the overall integrity of the integrated water system by securing water affordability.

For example, at the 2000-2003 determination the Tribunal endorsed the removal of prepaid water allowance for customers of Gosford and Wyong Councils. The result was significantly increased prices for some customer classes as cross subsidies were removed. Tariff restructuring meant that low usage households would be better off at the expense of high usage households, and as a consequence the restructuring was introduced at a rate that reduced the price shock. At that time, the Tribunal then considered the specific implications for certain customer groups “that may be more adversely affected than others” by its determination. These were identified as low-income large families, pensioners and tenants.

PIAC is concerned that the price rises proposed by the Draft Determination have a number of characteristics that are significant in terms of their social impact. The price increase is weighted to consumption charges so households with high levels of non-discretionary water consumption (such as low-income large families and people with health problems) will bear a greater burden of infrastructure costs. Additionally the bulk of the infrastructure costs will be recovered in the current period, reducing inter-generational equity as current residents subsidise future residents. Lastly the rebalancing of costs from fixed to consumption charges will create a greater burden for both private and public tenants without any guarantee that reductions in fixed water charges in real terms will be translated into rent reductions.

It is concerning that none of these customers classes have been singled out for analysis in the draft determination. The Tribunal’s report notes that, “It is important that the potential to mitigate the impact of the increases is fully understood.” However, without the analysis of price impacts for large families, a pensioner household and public tenants, the full social impact cannot be understood.

Other Local Water Utilities (LWUs) will be looking closely at the Gosford and Wyong determination to gauge how to best manage drought-related costs in the future. The Best Practice

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1 See analysis of water affordability in Reidy, C & Partridge, E (2005) p v
Guidelines that are published by the Department of Energy, Utilities and Sustainability provide guidelines for LWUs about how to recover “lumpy” investment costs. Those guidelines recommend that LWUs examine the impact of new tariffs on the bills for representative customers. Given that the proposed water tariffs involve rebalancing towards consumption charges, PIAC proposes that residents would be best served by ensuring that the impact of specific customer groups is fully addressed in the draft determination.

**Recommendation 2:**
*That the final determination include detailed analysis of the price impact and incidence on pensioner, low-income large families and tenant households, in order to enable the Tribunal, the NSW Government and the councils to better understand the social impact of the determination.*

**Recommendation 3:**
*That the Tribunal undertake to conduct an investigation into the affordability of water on the Central Coast over the span of the 2006-2009 determination.*

### 1.3 Measures to mitigate equity concerns

The councils need to invest heavily as a result of the ongoing drought. In light of this, the draft determination recommends very little variation to the required revenue. The Tribunal’s preference is to use social programs to offset equity concerns:

> As part of the consultation on the draft determination and report, the Tribunal requests the Councils to more fully articulate the measures they have in place and propose to assist customers facing financial hardship. (IPART 2006 p78)

At the 2000-2003 Determination, the following similar observations and recommendations were made;

> “A significant proportion of Gosford Council’s total accounts are pensioner accounts (around 17% in 1999). Currently, pensioners receive a rebate of half their water and sewerage, up to $87.50 for each service”

> “The Tribunal recommends that Gosford [and Wyong] Council investigate how it could assist [low income large] families if they have difficulty paying their water bill under the new charging arrangement. Some mechanisms it might consider include advice on water saving, free fitting of water saving devices and, where appropriate, an additional rebate”

> “As tenants do not have a customer relationship with the Council it would be difficult for Council to provide rebates to them to offset increases in water usage charges. The Tribunal therefore recommends that the Council investigate options for providing assistance to this group through its hardship committee” (IPART 2000 p22)

It is surely a flaw in the regulatory process that over consecutive IPART determinations Wyong and Gosford Councils have been requested to improve their hardship program and introduce a payment assistance scheme, yet there has been no resultant action. At the 2005 determination the councils were specifically asked to report in the current review on No Interest Loan Schemes (NILS), payment assistance programs and extension of hardship programs. The draft determination explains that, “the councils’ response to this request is less than the Tribunal would have liked” (IPART 2006 p 78). From the community’s perspective the failure to implement these programs raises very real concerns about water affordability on the Central Coast.

The level of pensioner rebates has been static since 1993 at $87.50 for each of water and sewerage charges. The hardship program has not been formally improved and there has been no prioritisation of either the payment assistance or NILS schemes since the last determination. The Draft
Determination calls on the councils to more fully articulate these measures. PIAC’s view is that the councils have been provided with more than sufficient time since the previous determination to formulate policies and yet there has been absolutely no development.

Social programs in other Australian communities have proven successful in mitigating the distributional impacts of competition policy based tariff reforms that emphasise economic cost-recovery. It appears that repeated requests for the councils to implement such policies have fallen on deaf ears. Without any guarantee that these programs will be implemented over the span of the 2006-2009 determination, PIAC is extremely concerned that pensioners, low income large families and tenants will suffer undue economic hardship as a result of the proposed price increases.

We note that in previous determinations, the Tribunal has seen the building block methodology as an important part of pricing considerations, however not one used in isolation from the Tribunal’s exercise of regulatory discretion. In particular, the Tribunal’s consideration of social or environmental impacts may appropriately lead to the modification of the building block methodology. In the absence of a firm commitment from the councils to invest in social programs, PIAC requests that IPART use its regulatory discretion to respond to serious concerns about the social impacts of its determination.

PIAC is of the view that the councils’ demand management program should be adjusted to focus solely on vulnerable customer groups rather than the general population. Research undertaken by the Institute for Sustainable Futures for PIAC identified a substantial scope to provide assistance to vulnerable customer through demand management programs;

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<th>Targeted demand management</th>
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<td>Many of the research participants noted that low-income households are unable to afford the upfront cost of repairing leaks, maintaining water-using equipment or buying water-efficient appliances. This makes it very difficult for low-income households to respond to price signals. Perhaps the most effective non-price measure to achieve water conservation in low-income households is to provide targeted demand management programs (e.g. retrofit and rebate programs) to assist with the upfront cost of water conservation. None of the case study communities had residential retrofit or rebate programs in place.</td>
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<td>From an equity perspective, subsidised retrofit programs should give priority to three overlapping categories of customer:</td>
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<td>• Low-income home owners (likely to include single parents and elderly people)</td>
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<td>• Homeowner households with large families</td>
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<td>• Tenants.</td>
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<td>The significant experience with retrofit programs in the Sydney Basin could readily be applied to the rural and regional areas of NSW. Programs could cover repair of leaks, reduction in toilet flush volume and installation of efficient showerheads and flow reducers on taps.</td>
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The councils’s water customer support services increased more than 70% over the 2005/06 determination period as the councils expanded their programs to encourage water conservation. We note that while higher income households may be able to change their medium-long term consumption choices, other low-income households will not have the same capacity. In PIAC’s view it is appropriate at this time for the councils to use their demand management programs to mitigate the social impacts of unavoidable price increases.
Recommendation 4:
That the Tribunal allow the councils demand management programs to be recoverable through prices only where they are targeted specifically to vulnerable customer groups (including water conservation education, water efficiency rebates and other rebate programs).

Protection of consumers from abuse of monopoly power

In PIAC’s previous submission to the Tribunal, we had suggested that it was not appropriate at this time for councils to deliver a dividend from surplus through regulated prices. We note that the Best Practice Guidelines state that “LWUs facing major capital expenditure for new or replacement infrastructure should defer paying a significant dividend from their surplus as such a payment would directly increase the required typical residential bill”. (DEUS 2004 p11)

The Draft Determination allows Gosford to recover a $1.8million surplus in contradiction to NSW Government policy regarding payment of dividends. Customers of Gosford council will be better served by reducing residential bills in light of the substantial infrastructure costs and associated price increases.

Recommendation 5
That the final determination set prices which exclude any contribution to surplus dividends for the councils
References


IPART (2006) Gosford City Council Wyong Shire Council Prices of Water supply, wastewater and stormwater services, from 1 July 2006 to 30 June 2009 Draft Determination, IPART, Sydney

IPART (2005) Gosford City Council Wyong Shire Council Prices of Water supply, wastewater and stormwater services, from 1 July 2006 to 30 June 2006 Final Determination, IPART, Sydney

IPART (2000) Wyong Shire council Prices of water supply, sewerage and drainage services medium term price path from 1 July 2000, IPART, Sydney

Reidy, C & Partridge, E (2005) NSW Water Pricing Guidelines and Country Town Communities: Assisting vulnerable residents, report prepared by the Institute for Sustainable Futures, UTS for the Public Interest Advocacy Centre, Sydney