



public interest
ADVOCACY CENTRE

**Submission to IPART 2021 Review of
Essential Energy's waste and wastewater
prices for Broken Hill Issues Paper**

25 October 2021

About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage.

PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. Our work combines:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change and public interest outcomes.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. The program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives input from a community-based reference group whose members include:

- NSW Council of Social Service;
- Combined Pensioners and Superannuants Association of NSW;
- Ethnic Communities Council NSW;
- Salvation Army;
- Physical Disability Council NSW;
- Anglicare;
- Good Shepherd Microfinance;
- Financial Rights Legal Centre;
- Affiliated Residential Park Residents Association NSW;
- Tenants Union;
- The Sydney Alliance; and
- Mission Australia.

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1. Introduction

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART) 2021 Review of Essential Energy's water and wastewater prices for Broken Hill Issues Paper.

There are a number of challenges for pricing water and wastewater services for the Broken Hill area, including:

- The high cost of delivering these services in an isolated and arid location served by new pipeline infrastructure, to a small consumer base.
- The localised high water demand due to the hot climate and need to address the widespread presence of lead and dust.
- The significant socio-economic disadvantage of the area and the declining sustainability of the population base.

Addressing these substantial challenges requires long-term planning by Essential Water and coordination with policy and planning across many levels of government. Essential Water's long term planning must include consideration of how to ensure the long term security and sustainability of the area's water supply, and ensure that the community's usage is as efficient and affordable as possible. This includes considering the long term viability of drawing from the Murray River via the pipeline, the sustainable use of local water options, and optimum implementation of conservation and water recycling. These issues have been highlighted through State and regional water plans, and are of particular importance in the Broken Hill area.

IPART's final determination will need to strike an appropriate balance between cost reflectivity, affordability and fairness that is consistent with the approach taken in previous determinations. In the the Broken Hill area, applying a completely cost reflective price could lead to a significant number of people being unable to afford the water they need for their health and wellbeing. Many would likely respond by deliberately rationing their water to the detriment of their health, or going without other essentials such as food and medicine, to afford their water bills. As was found in the Productivity Commission's report into National Water Reform 2020:

Although some vulnerable groups can be targeted through rebates (as already occurs for pensioners), other community members may also face affordability issues. These circumstances can warrant a State or Territory government operational subsidy to reduce prices and prevent onerous cost imposts on customers.

Under the NWI [National Water Initiative], any operational subsidies should be provided as transparent and untied CSO [Community Service Obligation] payments.¹

Noting socio-economic disadvantage extends beyond pensioners, the NSW Government must play an ongoing role to maintain the affordability of essential water services to households and small businesses in the Broken Hill area. A subsidy from the NSW Government to maintain bill certainty and affordability is appropriate, and is in line with community expectations. PIAC

¹ Productivity Commission, ['National Water Reform 2020'](#), Inquiry Report, 173.

supports an ongoing subsidy to facilitate affordable access to quality water services, and support the essential needs of households and small businesses in the communities of the Broken Hill area.

Provision of a subsidy comes with an obligation to be transparent, according to principles and objectives that align with community expectations. A subsidy places increased obligation on Essential Water to ensure it is efficiently responding to the long term needs of the community, and its prices include signals for efficient use while being clear what subsidy is delivered and to whom. This is a particularly important as Essential is seeking a continued and expanded subsidy.

PIAC sees no reasonable justification for an ongoing subsidy for mining and other large water-using businesses and does not support subsidies being provided for these customers.

2. Response to Issues Paper questions

Question 1

Setting prices that customers can afford is a key concern for this review. What are the factors should we consider to ensure the prices we set are affordable for customers?

Access to safe, affordable drinking water is essential for the people of the Broken Hill area. As part of this review, IPART should take into consideration the issues highlighted in the Issues paper:

- 'Broken Hill is ranked in the lowest 10% of communities in NSW for socio-economic advantage.' This is an indication of serious poverty in the community. It is important not to assume that households receiving pensions are the only households on low incomes. This level of poverty is unlikely to be remedied by rebates alone. Often large households with little capacity to reduce usage on low incomes but no eligibility for government supports experience difficulty paying for their essential goods and services.
- 'Residential water and wastewater bills typically comprise 2.5% of household income in Broken Hill.' Given the high socio economic disadvantage, many households will have difficulty managing even small increases in water bills.
- 'Broken Hill's population is decreasing by around 1% each year.' It is possible health issues impacted by water quality and affordability are contributors to population decline. IPART must consider the effect of an ever shrinking customer base left to pay for water infrastructure in an isolated location. Long term plans to improve efficiency of use and quality and affordability of water services should be part of measures to support the ongoing viability of the community.

In this price review, IPART should also take into consideration:

- Healthy water usage needs to be enabled to help protect the community from the serious consequences of lead poisoning. The need for water to manage lead and dust should be supported by community health messaging. Long term plans to address lead and dust issues

more sustainably should also be explored in conjunction with local government and health authorities.

- The long term sustainability of all water usage must be assessed to ensure the community's access to affordable and healthy water services in the face of risks to supply. Pricing should support sustainable usage targets and long term plans to use water more efficiently where possible.
- Underlying prices should include signals for efficient use, with any subsidies being applied to eligible users transparently according to agreed community expectations.
- Not maintaining and replacing infrastructure as required is likely to mean greater expense repairing infrastructure including the cost of bursts and leaks. Infrastructure should not necessarily be replaced on a like-for-like basis, but according to a long-term plan to improve efficiency and address sustainability risks. It is possible that more expensive options to implement high-level recycling, for instance, may represent better value to the community in the long-term where it can be appropriately incorporated into long term plans.

Prices should be transparent and easy for consumers to understand. Any bill increases should be implemented with support systems to help consumers, particularly those with the most need.

Question 2

What factors should we consider to ensure prices for mining customers reflect a fair share of costs and are affordable?

PIAC supports IPART's proposal to 'consider if proposed prices reflect the impact mining customers have on Essential Water's costs.'

Households and the community (including small businesses) require water as an essential support for life and health. They are not able to avoid use and must use what they need, regardless of their capacity to afford that usage. Reflecting the full cost of water in this case must be mitigated by the need to ensure people access the water they need as affordably as possible.

Mining consumers, on the other hand, are profit-making entities using water as a business input. While water use is part of many business practices, there are often more sustainable (if expensive) practices which could be employed. Where water is required, there are opportunities to be more efficient, limit the use of high-quality water, or develop alternative water sources, such as through the reclamation of waste-water.

The incentive to use scarce water resources more efficiently in mining is undermined by noncost-reflective pricing.

The pricing of water services to mining and other large business customers has a direct impact on the cost of water services to households and small businesses. Subsidy intended to support household, small business and community use should not support mining customers.

Large businesses have significantly more capacity to pay than residential consumers and small businesses, and capacity to reduce their usage to manage costs. It is unacceptable and unnecessary for them receive subsidised water prices.

In its recent National Water Reform 2020 Inquiry Report, the National Productivity Commission recommended that mining water use be subject to full cost recovery.²

Question 3

What do you think about the proposed price increases for chlorinated and untreated pipeline water customers?

PIAC supports the setting of single prices for untreated water and chlorinated water that are consistent across the customer base.

Question 4

Based on current information, bills would increase by about 6% a year if the subsidy is not expanded to include both Pipeline and other Essential Water costs. If this occurs:

- **would bill increases be affordable?**
- **how would it impact on household and business customers?**
- **which customer groups would be most impacted by bill increases?**

Any price increase would be difficult to manage for households on low incomes. Given the socio-economic disadvantage of the area, this would be a significant number of households. Price increases would have a particularly detrimental impact on households with fixed incomes and on large families on low incomes who are not eligible for rebates where it is difficult (and unsafe) for them to reduce their water usage.

The affordability of water services critical to the health and wellbeing of the community should be the primary objective. This should not be justification for a broadscale subsidy for all users that undermines Essential's incentive to provide price signals for efficient use, conserve resources and drive efficiency. Neither should it justify a subsidy for non-residential users with capacity to reduce their use, implement alternative practices, seek efficiencies, or manage the resulting costs.

Question 5

Tell us what you think about Essential Water's service standards for water and wastewater. What does good quality service mean to you?

This important question requires local input from community members. PIAC suggests IPART engage with local residents and businesses to answer questions 5-8. This engagement could involve face to face engagement and/or a survey. PIAC would be happy to provide input into the design and conduct of this engagement.

² Productivity Commission, '[National Water Reform 2020](#)', Inquiry Report, 76.

Question 6

Have you noticed any changes in water quality since the completion of the Pipeline in 2019?

Please see the answer to Question 5 above.

Question 7

What affects how you use water? Why might you be using less or more water? For example:

- has the Pipeline changed how much water you use?
- do you use water to reduce lead exposure to protect your health?
- have you been using more water since water restrictions in Broken Hill were lifted?
- do you use less water for environmental reasons such as climate change?
- has the COVID-19 pandemic affected the way you use water?

Please see the answer to Question 5 above.

Question 8

If you are a commercial or industrial customer, are you expecting a change in your water use in the future? If so, how much more or less water would you expected to use over the next 5 years? How certain are you with this change?

Please see the answer to Question 5 above.

Question 9

Should we set Essential Water's prices for 5 years?

PIAC does not support a five year determination period at this time. PIAC is concerned that a number of issues in the current pricing period, and in what is proposed, demonstrate a longer determination period would not be in the interests of consumers and the community.

Previously forecast changes in water consumption did not eventuate, including community water use not increasing with the commissioning of the pipeline. This is despite a stated intent of the pipeline being to facilitate water usage to address the community health problems associated with lead. Issues with forecasting demand and pricing are a significant risk to the community. As revenue and the sustainability of the business and the efficiency of pricing is so dependant upon demand, PIAC does not see enough evidence that Essential is planning to sustainably manage demand, support efficient usage and enable affordable and stable pricing.

Rather than reliance on usage that is difficult to forecast, Essential should follow established practice demonstrated in the Lower Hunter Water Security Plan and set a range of long term usage and demand targets, and long term plans to improve conservation, recycling and other measures to meet these targets sustainably. In conjunction, there should be a long term plan to set stable prices, introduce more price signals to encourage efficient water use where it is appropriate to do so, and work with the community to ensure water is used where it is needed. A

proposal that demonstrates such long term planning, and clearly indicates where the proposal period contributed to those plans, could reasonably be set for 5 years and provide the community and consumers with confidence that it was in their interests.

In absence of such clear planning PIAC considers a 3 year price setting period appropriate for the Broken Hill community. The pricing period should align with Water NSW's Murray River to Broken Hill Pipeline price review given they are heavily dependant upon each other.

Question 10

Do Essential Water's cost pass-through events place too much risk on customers?

PIAC does not support Essential Water's proposal for cost pass-throughs. We consider Essential is passing inappropriate risk, and cost, to consumers (particularly households) who are not able to manage those risks or bearing those costs. PIAC is particularly concerned with Essentials cost pass-through proposal coming at a time they are also requesting an expanded government subsidy.

Businesses such as Essential have limited real risk to their viability. The essential nature of the services they provide for the community mean governments and the community will not allow them to become unviable. While this presents a moral hazard, it is important context to IPART decisions regarding how additional risks, including those that may be unforeseen, are handled. Essential Energy should be capable of managing risks, as a foundational aspect of good management for any business, and particularly as a monopoly utility business.

PIAC contends It is more appropriate for Essential Energy to manage risks through better integration of proposals for each determination period, into long-term plans to manage demand, (through targets), smooth prices, and develop mechanisms to 'self insure' for unforeseen risks

PIAC considers that any significant events that materially change the operating environment for Essential are more appropriately dealt with by a request for an early regulatory review.

3. Continued engagement

PIAC welcomes the opportunity to meet with IPART and other stakeholders to discuss these issues in more depth.