

# **Review of prices for metropolitan water, sewerage and drainage services**

**Submission to IPART, NSW  
by**

**the Australian Water Association Limited**

ABN 78 096 035 773

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## **1. Summary**

The Australian Water Association is not addressing the full range of issues canvassed in IPART's paper of June 02, but believes that two key changes need to be made to pricing of water, sewerage and drainage services in NSW:

- Pricing structures should offer incentives to customers to reduce water consumption in general but, in particular, to keep Sydney's consumption below the safe yield of its catchments and to move all metropolitan utilities towards sustainable consumption levels.
- Prices should increase to include a component to reflect (and to be hypothecated for redressing) externalities, also with a view to achieving sustainability.

## **2. The Australian Water Association (AWA)**

AWA is the largest water association in Australia, having around 4,000 members. Those members include individuals (the majority) and about 500 organisations. Membership is very diverse and AWA is thus not representative of any vested interests. The Association's mission is *to promote sustainable management of water*. ([www.awa.asn.au](http://www.awa.asn.au))

## **3. Incentives for minimising water consumption**

Notwithstanding the reservations expressed in the IPART discussion paper, AWA believes that pricing mechanisms are a valid and equitable contributing factor in demand management, along with education and technological efficiency issues (such a leakage control, retrofitting AAA-rated appliances etc).

Although water pricing in NSW nominally operates on a user-pays basis, the practical impact of current fixed/access; consumption and sewerage charges is that, in Sydney at least, only 33% of the average domestic bill is affected by consumption. Thus a 50% reduction in consumption (a bold target) would result in a 16.5% reduction in the annual charges, a saving of just \$93. In economic terms, the price signal to consumers from that structure is very weak. Inelasticity of demand is to be expected where the user-pays pricing component is probably below a threshold of concern for most households.

We advocate that the pricing structure be adjusted in the following ways:

- minimise the access fee
- increase the water consumption charge and apply a rising block tariff so that any household using above average quantities pays a punitively high rate
- charge for sewerage discharges by using a surrogate for actual sewage volumes – probably a percentage of consumption, different for each class of dwelling or block size
- apply seasonal charges to discourage use when demand is at a maximum.

We do not have a firm proposal for the actual fees, but a fee structure which resulted in no change for an average household would cause no hardship for most users. It would benefit low water users and penalise wasters, which is exactly what is intended.

While we realise that a rising block tariff structure has the potential to disadvantage large households, or to impose an administrative burden, there should be a reasonable balance between too many categories and a procrustean bed. For instance, flats, townhouses and freestanding dwellings could all be treated differently without significant transaction costs.

We do not accept the argument advanced in the discussion paper, namely that customers are unaware of what block they are charged on – a simple analogy is the marginal tax rate. Although many taxpayers are not fully conscious of fine detail in their tax affairs, most are acutely aware of their marginal rates and they act accordingly. A householder who knows that the next kilolitre of water is going to cost \$3 is likely to be more cautious than one who knows that the next kilolitre will cost just 93c.

Seasonal pricing is a valid way to communicate scarcity to consumers. It could also be applied during times of drought, triggered by critical levels in storages.

Clearly, the Tribunal's opposition to price increases is driven largely by a concern that extra revenue will accrue without extra effort having been expended on service levels or addressing externalities. The latter point is discussed below, but it should be feasible to arrange for extra revenue to be hypothecated for demand management, education and, perhaps, service improvements.

#### **4. Charging for externalities**

At present, pricing structures take no account of environmental impacts of water harvesting, use or discharge, which imposes a cost on the environment and the community at large for the behaviour of consumers. While we realise that estimating and, worse still, agreeing on the magnitude of externalities for environmental impacts is fraught with difficulty, any attempt at redressing the inequity would be better than none.

In common with the principles of adaptive environmental management, adjusting consumer prices for water could well be implemented on an iterative basis with regular reviews. Experience has shown that consumer acceptance of charges and levies is greater if the purpose of a given charge is known, endorsed, and especially if there is a degree of certainty that the funds have indeed been allocated to the stated purpose.

#### **5. A combined approach**

Our contention is that the arguments advanced in the IPART discussion paper are primarily based on the economics of state owned monopoly businesses and do not reflect the marketing realities of consumer businesses. Customers react according to their perception of price points and it is unrealistic to expect water demand management to take effect when the price of the product is low. Only through a combined assault in terms of price, education and engineering can the goals of demand management be reached. Research in the USA, into detailed water consumption habits, has demonstrated that the most significant factor is human behaviour.

We believe that a higher price for water will ultimately drive down consumption, while at the same time providing extra revenue to use for both demand management and for dealing with environmental issues.

As Sydney Water is already required to account for efficiency, capital expenditure and environmental outlays, dealing with extra income and allocating it to demand management and environmental works will make little difference to the process of regulatory oversight.

To insist that only EPA-mandated environmental improvements warrant capital expenditures by Sydney Water is to place the corporation in the invidious position of being a completely reactive environmental actor, without the capacity to make investment decisions as a responsible corporate citizen.

## **7. Conclusion**

To achieve sustainable water management in NSW metropolitan areas is going to demand some very radical changes in planning, management, lifestyles and technology. While the price of water is so low that few people perceive it to be valuable, the necessary changes in investment and behaviour are not going to occur. IPART must adjust maximum prices to send conservation signals to consumers, and to generate the income needed to make improvements for the environment.