

*Independent Pricing and Regulatory Tribunal*

*Review of Metropolitan Water Agency prices*

*Issues Paper*

November 2002

*Response by the*

*Energy & Water Ombudsman NSW*

Thank you for the opportunity to comment on the Review of Metropolitan Water Agency Prices Issues Paper.

The role of the Energy & Water Ombudsman NSW is to investigate and resolve complaints in relation to gas and electricity providers in NSW, and from customers of Sydney Water and Hunter Water. During the first quarter of the 2002/03 financial year, EWON received 141 complaints about NSW water providers. This figure includes 23 complaints about water providers other than Sydney Water and Hunter Water, which do not currently fall within the scope of the scheme. Complaints about water providers comprised 9.4% of all complaints made to EWON throughout the period.

While we are not in a position to comment on all of the details of the issues arising from the Issues Paper, in this capacity we are able to make some comments and provide information based on customer contacts with EWON.

We will address some of the issues that the Issues Paper raises as relevant for assessing water sewerage and drainage charges, in the order in which they appear in the paper. Additional comments are noted at the end of the paper.

The key issues we will address are:

- *How best can the Tribunal assess customers' willingness to pay for the services offered and the need for any enhancement in services?*
- *What is the most appropriate way to create incentives to encourage achievement of an optimal level of service quality?*
- *Are pricing strategies likely to have a significant effect on demand?*

We note that in setting prices for water agencies, it is essential to balance values such as:

- consumer protection
- financial and operational efficiency, and
- environmental impact and water conservation.

# **1. How best can the Tribunal assess customers' willingness to pay for the services offered and the need for any enhancement in services?**

EWON is not in a position to comment on how best to assess customer willingness to pay for enhanced water services, although we are aware that the electricity industry has recently commissioned work in this area. However, an examination of the complaints received by EWON may indicate the focus of customer's concerns when there are problems.

In the financial year 2001 – 2002, EWON recorded 448 issues from complainants about water suppliers. Billing problems accounted for 32% of complaints, including a high percentage of complaints about unexpectedly high bills. 20% of complaints concerned customer service issues and 18% related to quality of supply.

EWON's experience with customers suggest that customers expect that their water supply will be affordable, safe and adequate for their needs and that the water supply

authorities will offer a reasonable level of customer service and a commitment to resolving any issues which may arise.

### **Case Study (5296)**

*Mr S contacted EWON to complain that he had low water pressure. He had made repeated complaints to his provider and received no response until recently when he received a visit from a service engineer. The engineer advised Mr S that his water pressure would increase if he were connected to a different reservoir, but due to the age of the mains, the provider could not do it this.*

*EWON contacted the provider who conducted pressure tests at Mr S's property. The tests established that the water pressure problems were on the customer's of meter. Mr S was satisfied with this explanation but commented that he has been complaining about this matter for some time and the provider only took his complaints seriously after EWON's involvement.*

### **Case Study (9783)**

*Mr W disputed his account with his water provider for \$343. He contacted his provider twice, but was told it would cost him \$250 for someone to come out and check the meter on his property. Mr W said that he had been frugal with his water consumption since receiving a previous account for \$150, and had also checked his property for leaks.*

*EWON spoke with Mr W's provider, who arranged for a site visit. The site visit confirmed that a meter had been installed at Mr W's property four months earlier, and that Mr W was now receiving bills on the basis of meter readings rather than being charged as unmetered supply. However, the meter recorded consumption for three properties on a joint service, and the provider had charged Mr W for consumption on all three properties.*

*When the provider became aware of the situation, they adjusted Mr W's account and then met on site with all three neighbours to advise them about the joint service and the options available to them for water supply and billing. Mr W was satisfied with the actions the provider took, but frustrated that the information was not made available to him during his earlier contacts with the provider.*

EWON supports a pricing and service structure that ensures an appropriate standard of equitable access to safe and adequate supplies of affordable water, and which is linked to an appropriate base level of service standards not dependent on price.

We understand that some water providers carry out customer satisfaction surveys, which can provide useful information to identify areas where service improvements may be required.

An additional valuable source of information for use in identifying the need for service enhancement may be the reports on system performance required as conditions of the operating licence of Sydney Water and Hunter Water, which could be used to identify under-performing areas of the network.

EWON noted in its response to the Review of Sydney Water Corporation's Performance Standards in February 2002 that in response to similar issues in the electricity industry, the Ministry for Energy & Utilities convened the Reliability Working Group, and requested that the group develop a reporting methodology for network performance. A copy of the final report from the Reliability Working Group is attached for your reference.

In summary, the group recommended that:

- Each network operator's network should be divided into sections for reporting purposes, which are to remain consistent from year to year.
- The network operator should report on performance for each section of the network.
- Using both qualitative and quantitative measures, poorly performing sections (and sub-sections) of the network should be identified.
- Strategies to address the system performance issue should be developed by the network operator, and publicly reported.

The Reliability Working Group developed a standard table layout to promote consistency in reporting format across each network operator, which is included in the attachment.

It may also be useful to provide customers with information on system performance that is relevant to their area.

The current Operating Licence requires Sydney Water to report system performance in an aggregate manner. For example it states that 96% of customers will not experience a sewer surcharge.

A customer experiencing poor system performance will be more interested in the level of reliability for their area than in aggregate information, which might inform them that the system is operating with a high level of reliability overall, say 99%.

However, aggregate information will be useful in providing customers with some measure by which they can compare reliability. For example, is their level less, but not significantly less than the aggregate, or is it a significantly lower level than the aggregate?

Reports based on data from both internal and external complaints databases may provide useful indications of systemic issues.

EWON will continue to report on systemic issues to Hunter Water, Sydney Water and regulators.

## **2. What is the most appropriate way to create incentives to encourage achievement of an optimal level of service quality?**

EWON noted in its response to the Review of Sydney Water Corporation's Performance Standards in February 2002, that customers generally have reasonable expectations of service standards. They expect that their water supplier will:

- Provide the best supply quality possible
- Act swiftly to effectively remedy supply quality issues which arise

- Undertake regular maintenance on its assets
- Identify poorly performing sections of the network, implement strategies to remedy problems, and advise customers of these strategies
- Provide redress to customers where supply problems have had an unreasonable impact on them

In meeting these expectations and to avoid the generation of inequalities in service, where some people may be able to pay more to obtain better service and others receive an inferior level of service, it is important that benchmarks for appropriate levels of service quality standards are established and maintained, and that all essential services remain affordable.

The operating licences of Hunter Water and Sydney Water may be the most appropriate mechanism for maintaining service standards and introducing improvements, and could act as a benchmark for service standards for other water suppliers.

We understand that none of the metropolitan water providers are seeking to tie price increases to improvements in service standards, and we support this approach.

### **3. Are pricing strategies likely to have a significant effect on demand?**

We support statements in the Issues paper on the effect of pricing on demand, such as

*the Tribunal is not convinced that price as a means of reducing user demand is appropriate or likely to be successful. In general demand is not responsive to price changes*

We note that this is supported by current research.

In their submissions, Wyong Shire Council and Gosford City Council propose increases to bring their prices in line with Sydney Water and Hunter Water. We are not in a position to comment on the methodology by which the increases are calculated, nor the structures within which they are applied. We note however that Wyong Shire Council's highest increases of 10% are targeted to high usage households, while the lowest consuming household's bills will increase by 3%.

While this seems to be a reasonable allocation of increases, we note that it is not always the case that the households with the highest consumption are those with high incomes. Consideration of pricing structures such as these need to take into account their likely impact on low-income households, particularly low-income / high consumption households.

While tenants who are not charged for water usage will not be subject to pricing signals, we note that since 1995 an increasing number of tenants who are in separately metered properties are being charged by their landlords for water consumption. Information provided to EWON by the Tenants Union suggests that it is not uncommon for the Tenants Union to receive complaints about errors made by landlords in passing accounts for water consumption onto tenants.<sup>1</sup>

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<sup>1</sup> From a conversation with the Legal Officer at the Tenants Union, 15/11/02.

We note that any changes in pricing structures should ensure that landlords and tenants in particular are effectively informed of the impact of any changes and how they may be applied.

In respect of pricing signals, we note that tenants who are charged for usage may have less control over their level of consumption than other households since they may have inefficient appliances and little control over factors such as timely repairs to reduce loss through leakage from internal pipes.

Whatever pricing structure is adopted, it must ensure that water remains affordable for low-income households and should be linked to non-price programmes that promote reduction in demand, including education campaigns and residential refitting programmes.

Programmes that are designed to assist those customers who are in financial difficulty, including tenants who pay for water usage, are also vital in maintaining supply of essential services to all users.

We support Sydney Water's provision of an emergency assistance scheme (the "Payments Assistance Scheme") which provides support to customers who are experiencing financial hardship. In limited circumstances, this support is also available to tenants who are billed for water consumption by their landlord. We note that an extension of the scheme to other suppliers would provide significant assistance to customers who may currently be unable to access other forms of assistance.

We also support Gosford City Council's extension of the activities of their hardship committee. We understand that people experiencing hardship are encouraged to contact the committee, which is authorised to write off outstanding amounts in the appropriate cases.

The development of guidelines on assisting customers who are having difficulties in paying their water bills may also be of benefit to all suppliers.

EWON commends efforts to educate users in water conservation and to offer incentives to increase the use of alternative supplies of water, such as rebates on water tanks. However, proposals to, for instance, raise potable water prices in order to drive an increased use of grey water must be considered in light of their likely impact on low income households, who may not be able to afford to install the devices needed to enable utilisation of grey water. Similarly, tenants may not be in a position to install fixtures in properties owned by landlords.

#### **4. Additional Comments**

##### **Miscellaneous Charges**

EWON supports moves that promote consistency and comparability across miscellaneous charges, such as the recent introduction of standard descriptions for miscellaneous charges. In order to advance comparability, mechanisms for increasing the availability of information to customers on the amounts charged for miscellaneous services should be investigated.

In regard to the costing of miscellaneous charges, we note that there are some substantial differentials in the pricing of miscellaneous charges that may impact on vulnerable customers in particular. For instance, the differences in fees proposed by Hunter Water and Sydney Water for dishonoured payments: while Sydney Water

charges a flat fee of \$20, Hunter Water charges between \$16 and \$31, depending on payment method.

These and other fees, such as charges for restriction or disconnection following non-payment of bills can add substantially to the arrears of customers who are having payment difficulties, sometimes totalling more than the original amount owing.

In addition to charges imposed by the supplier, customers who are in financial difficulty may incur dishonour fees if they have an arrangement to pay their bills by direct debit from their financial institution. A dishonour fee may be charged by the financial institution and by the supplier for each dishonoured payment. These charges may be especially significant when a provider or financial institution makes several attempts to process one due amount, and the customer incurs a charge for each unsuccessful attempt.

The following case study relates to an electricity provider, but serves to illustrate the way in which customers may be financially disadvantaged as a result of miscellaneous fees charged by providers and financial institutions:

### **Case Study**

*Mrs M has a direct debit arrangement with her provider. Her provider withdrew a payment 5 days before the due date. At that time there was insufficient funds to pay the account and Mrs M was charged two dishonour fees of \$30 each by her financial institution, and faced additional charges from her provider.*

*After EWON spoke with her provider, they agreed to credit Mrs M account for the amount of the fees charged by the financial institution.*

Although it may be appropriate to levy a miscellaneous charge to recover administration costs associated with some processes, EWON notes that the imposition of these charges can create significant financial hardship for customers. In extreme circumstances, the amount of fees charged to an account may affect the customer's ability to maintain connection to a water service.

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