COMBINED PENSIONERS AND SUPERANNUANTS ASSOCIATION OF NEW SOUTH WALES INC.

Founded 1931.
Serving pensioners of all ages, superannuants and low-income retirees.

Consumer Protection Awards – 2002, 2003, 2004, 2005

Submission to the Independent Pricing & Regulatory Tribunal for the 2007 Sydney Water Price Determination

October 2007

Introduction

In light of the NSW Government's instruction to Sydney Water to build a desalination plant and its instruction to IPART to pass through the efficient costs of building and operating the plant, CPSA regards it as a given that IPART's eventual determination of Sydney Water's fees and charges will include very significant increases.

It is ironic that 20 per cent of the increases that Sydney Water proposes relates to concerns it has about its "financial viability". CPSA's constituency, by and large, has similar concerns relating to its own financial circumstances.

This submission will discuss:

- The impact of Sydney Water's proposal on low-income pensioners if it goes ahead;
- Sydney Water programs to be funded through the increases proposed by Sydney Water.

CPSA makes the following recommendations to equitably safeguard pensioners against the impacts of any significant price increases:

1. The cost of the desalination plant should be recovered through residential Tier 2 water usage charges, residential Tier 2 water service charges, developer charges and from high-use non-residential customers;
2. The cost of all renewals should be recovered through service charges;

3. The cost of servicing of growth should be recovered through developer charges only;
4. The NSW Government should inject capital into Sydney Water to the extent it is necessary to restore its financial viability; and
5. Late payment fees should not be charged where pensioners have contacted Sydney Water before payments fall due.

Impact of Sydney Water's proposals

The modest standard of retirement living as developed and maintained by Westpac and the Association of Superannuation Funds of Australia (ASFA) requires a retirement income of $18,500 p.a. for singles and $25,500 p.a. for couples.

In contrast, the pension is currently just under $14,000 p.a. for singles and $23,300 for couples. The pension, therefore, particularly for singles (on a full rate pension), provides a subsistence income, if it is relied on as the sole income source.

Sydney Water provides rebates to over 210,000 pensioner households. An estimated two-thirds of these households are run on subsistence incomes. Price increases that are significantly above CPI will have a severe financial impact on these households.

Assuming that generally usage pricing has caused these households to keep their annual consumption within Tier 1, under Sydney Water's proposal, they would face increases detailed in the table below.

Pensioner water bill (250 kl/pa water use)	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Water usage	$ 342.35	$ 405.00	$ 489.65	$ 504.33	$ 519.46
Wastewater service (rebated 81%)	$ 79.44	$ 84.21	$ 86.73	$ 89.33	$ 92.01
Total annual bill	*$421.79*	*$ 489.21*	*$ 576.38*	*$ 593.67*	*$ 611.48*
Increase from 07-08 in $		$ 67.42	$ 154.59	$ 171.88	$ 189.69
Increase from 07-08 in %		16.0%	36.7%	40.7%	45.0%

The 33 per cent above-CPI increase for a typical water user publicised by Sydney Water does not apply to pensioner households. They would face a real increase of 45 per cent, a quarter higher than other customers.

The impact on pensioner household budgets of this increase in terms of a proportion of the annual household income is disturbing. Where a household on one average weekly wage will pay just half a per cent of its annual income more on water, a single full rate pensioner will pay 1.4 per cent more, almost three times more. A pensioner couple would pay almost twice more.

Clearly, the Sydney Water proposal, confronting as it is for all customers, is particularly onerous on pensioner households. So much so that the question needs to be asked whether Sydney Water has considered the impact of its proposals on pensioners at all.

Water bill as proportion of annual income		**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Single - full rate pension	$13,980.20	3.0%	3.5%	4.1%	4.2%	4.4%
Couple combined - full rate pension	$22,802.00	1.8%	2.1%	2.5%	2.6%	2.7%
Household on average weekly wage	$56,596.80	1.4%	1.6%	1.8%	1.9%	1.9%

Sydney Water programs

CPSA has concerns about the justifications put forward by Sydney Water for its proposed price increases.

In its submission, Sydney Water attributes the need for real additional revenue as 38 per cent for desalination; 31 per cent for renewals, servicing growth and compliance with its operating licence; 12 per cent for recycling and demand management initiatives; and 19 per cent for financial viability.

It would seem that, even though Sydney Water has identified four areas of financial need, there is in reality only one for which it can justify proposing a significant real increase revenue. This is the desalination component of its proposal.

However, desalination has been used very much like a decoy in the publicity following release of Sydney Water's proposal.It is the three other components that need far more scrutiny than they have received up to now.

These components, which account for 62 per cent of Sydney Water's proposals for real revenue increases, would seem to be parts of Sydney Water's business for which Sydney Water ought to have planned within the regulatory and pricing framework in which it operates. It should not have come to a point where customers' bills need to rise by more than 30 per cent above-CPI over four years to restore the financial viability of Sydney Water.

Either Sydney Water has failed or the regulatory and pricing framework has failed it, or a combination of the two.

CPSA suggests that the following questions should be explored:
1. Could the requirement for a desalination plant have been avoided, had Sydney Water run more aggressive demand management programs before the drought started to bite? The positive public response to water restrictions demonstrates that huge water savings could have been achieved a lot earlier, and the need for desalination deferred. Also, to the extent that the desalination plant is required to cater for Sydney's growth, should not its capital cost be recovered through developer charges rather than usage and service charges?
2. Should the cost of any past and planned renewals not have been recovered through service charges?
3. Should the cost of servicing growth, including at least part of the desalination plant, not be recovered from the developers of that growth rather than be visited on customers who have no relationship with this growth?
4. Should the Government, as shareholders, presumably aware of the ongoing nature of inadequate cost recovery by Sydney Water not have declined dividend and tax equivalent payments (at an approximate level of 2 per cent of total equity) by Sydney Water since the corporatisation of the former Water Board? Sydney Water's profitability has always been extremely low, at levels in fact where commercial operations would generally not pay dividends.

Recommendations

CPSA recommends that:
1. The cost of the desalination plant should be recovered through Tier 2 water usage charges, Tier 2 water service charges developer charges and from high-use non residential customers;
2. The cost of all renewals should be recovered through service charges;
3. The cost of servicing of growth should be recovered through developer charges only;
4. The NSW Government should inject capital into Sydney Water to the extent it is necessary to restore its financial viability; and

5. Late payment fees should not be charged where pensioners have contacted Sydney Water before payments fall due.

CPSA's recommendations are based on the principle of user-pays, which underpins Sydney Water's operations and pricing regime.

Recommendation1
The cost of the desalination plant should be recovered through residential Tier 2 water usage charges, residential Tier 2 water service charges, developer charges and from high-use non-residential customers.

According to Sydney Water the desalination plant is necessary for two reasons: to keep up with current demand in a drought and to cater for future demand. To the extent that the desalination plant is intended to satisfy current demand during drought, the capital and operational costs should be recovered from high-use residential customers through a new Tier 2 water service charge, the Tier 2 water usage charge already in place and from high use non-residential customers.

It is encouraging to see that Sydney Water proposes significantly higher increases in water usage charges for Tier 2 customers. However, the question remains why Sydney Water wants to slug its eminently waterwise Tier 1 customers with an increase almost as great as for water-profligate Tier 2 customers. The result may be that the Tier 2 charge is 50 per cent higher than the Tier 1 charge, but this seems arbitrary.

To the extent that the desalination plant is projected to cater for population growth, i.e. future development and future demand, its capital cost should be recovered through developer charges.

It is very disappointing to see that Sydney Water does not propose anything should be done with developer charges to fund a capital project whose main aim, Sydney Water says, is to cater for growth.

Recommendation 2
The cost of all renewals should be recovered through service charges.

This recommendation by CPSA is in line with Sydney Water's own rationale for the service charge. Surely, the fact that service charges have not recovered the cost of renewals is a major contributing reason for Sydney Water's self-professed lack of "financial viability"?

It is only reasonable to pitch service charges at a level where they pay for renewals.

Recommendation 3
The cost of servicing of growth should be recovered through developer charges only.

This recommendation by CPSA is in line with Sydney Water's own rationale for the developer charge. Developers in NSW form a powerful industry group. The fact that they continue to pay developer charges set at sub-cost levels represents a massive and inappropriate subsidy of a wealthy industry.

Recommendation 4
The NSW Government should inject capital into Sydney Water to the extent it is necessary to restore its financial viability.

Routinely the NSW Government receives a dividend and tax equivalent payment with a value of approximately 50 per cent of the very slender profits Sydney Water books.

To the extent that these dividend payments are a contributing reason for Sydney Water's lack of financial viability, the NSW Government should invest in Sydney Water in order to lift it out of its predicament.

CPSA acknowledges that IPART is unable to require the NSW Government to do this. However, in CPSA's view IPART's determination should reflect the inappropriateness, if not impropriety, of future dividend payments by an agency in financial crisis.

Recommendation 5
Late payment fees should not be charged where pensioners have contacted Sydney Water when payments fall due.

Pensioner households' budgets are, by definition, stressed. CPSA requests that if a late-payment fee is introduced this will only be charged where deliberate delinquency is apparent.