REVIEW OF PRICE STRUCTURES FOR METROPOLITAN WATER UTILITIES

SUBMISSION BY TOTAL ENVIRONMENT CENTRE TO THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL

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INTRODUCTION

Total Environment Centre (TEC) welcomes the Independent Pricing and Regulatory Tribunal (IPART) review of price structures for metropolitan water utilities. TEC believes that pricing reform has a vital role to play in managing demand for water and preventing the environmental damage and expense of supply augmentations. We urge the Tribunal to adopt options that maximise the potential for water savings. TEC acknowledges that price reform alone is insufficient to produce sustainable water management. In order to maximise the benefits of pricing reform it will be necessary to couple these changes to other measures such as non-price demand management, increased recycling and permanent water saving rules. Nevertheless, pricing structures have a vital role to play in improving the management of water in metropolitan areas.

RESIDENTIAL PRICE STRUCTURES

Water services

TEC notes that Tribunal's comments that multi-premise dwellings are increasing as a percentage of total residential dwellings for Sydney Water, Hunter Water and Gosford and Wyong Councils (IPART, 2011). Current pricing arrangements dilute the resource conservation signal to many multi-premise dwellings and do not reward residents for conserving water. With the trend toward more such dwellings this poses challenges to current water conservation efforts as well as creating the potential for cross-subsidisation between residential customer classes.

TEC supports the principle that customers using the same services in similar volumes should have the same price structure and pay similar amounts for their services. Consequently, we do not support the option of leaving current price structures unchanged. TEC has no strong preference between the remaining three options i.e. charging all dwellings a standard water service charge, deeming a lower meter size for houses, or charging multi-premise dwellings a fixed percentage of the residential house charge. We note however, that the option of charging multi-premise dwellings a fixed percentage of the residential house charge appears to offer the greatest potential for future adjustments if required.

TEC sees no reason to treat dual occupancy dwellings, duplexes, community title dwellings or company title dwellings differently to other multi-premise dwellings.

There are many opportunities for reforming price structures beyond those considered in the discussion paper. Transitioning to individual meters for multi-premise dwellings should be treated as a priority for addressing current anomalies in pricing arrangements. Further, TEC believes that reform of current usage charges offers considerable opportunities for improving water management.

TEC supports the use of inclining block pricing to provide a clear signal to customers of the need to reduce water use to sustainable levels. In particular, second tier prices should be used to target discretionary water use and hence provide a strong incentive for high volume users to moderate non-essential water use.

We believe however, that this should be combined with a reduction in fixed charges and an increase in the first tier price. We believe that such a model would achieve greater water savings and provide customers with the greatest opportunity to control the size of their bills. This would ensure that both high volume users and customers with below average consumption would have strong incentives to reduce consumption.

Sewerage service charges

TEC believes that residential sewerage service charges should be reformed in a similar manner to water service charges.

In addition, we support the introduction of usage prices for wastewater services such as those previously applied by Hunter Water. Large fixed charges for sewerage services significantly reduce the control that customers can exercise over the size of their bills. The result is reduced incentive to adopt more efficient appliances and water use strategies, thus eroding the resource conservation signal sent by water usage charges.

TEC also believes that wastewater charges should not only reflect the economic costs of transporting and treating effluent, but also the environmental costs of discharging effluent to receiving waters. To reflect the greater environmental costs imposed by those who discharge higher volumes of effluent and in accordance with the principle of polluter pays usage charges should be applied to sewerage services.

Reducing pressure for supply augmentation is not the only goal or benefit of demand management. Reducing demand for water will also reduce the volume of effluent discharged to the sewerage system and thus lessen environmental impacts. In this context it is appropriate that volume pricing for wastewater form part of overall demand management strategies.

TEC recognises that this approach has limitations in that it is difficult to meter domestic wastewater discharge. In the absence of any means of metering discharge it is necessary for usage charges to be linked to water consumption.

It is clearly not appropriate for discharge factors to be set at 100% given that most customers do not discharge all their water into the sewer. The discharge factor should therefore be set at a reduced level.

While clearly not a perfect system, we strongly believe that it represents a superior approach to present pricing arrangements. It is true that such a pricing structure does not take into account the possibility that the amount discharged to the sewer may vary from property to property. It is clearly fairer, however, than a simple fixed service charge which reduces the capacity for customers to control their bills and effectively subsidises high users at the expense of more water efficient customers.

In order to make such a pricing structure more accurately reflect the contribution of flats and units the discharge factor for such properties should be set at a higher level

TEC believes that the Tribunal should also direct water agencies to investigate mechanisms that would more accurately reflects the contribution of each customer to the sewerage system such as wastewater metering or charging according to property size and land use. Such a system should also include rebates for customers who can demonstrate that they have reduced their contribution to the sewerage system (and thus the environmental costs of effluent disposal) through the installation of water efficient devices and improvements to private service lines.

NON-RESIDENTIAL PRICE STRUCTURES

TEC believes that similar principles to those described above should be applied to non-residential price structures. Customers using the same services in similar volumes should have the same price structure and pay similar amounts for their services. We do not, therefore, support continuation of current water a sewerage price structures for non-residential customers. TEC has no strong preference between the remaining three options i.e. charging all premises a standard sewer service charge, deeming a lower meter size for stand-alone properties, or charging multi-premise properties a fixed percentage of the non-residential stand-alone charge.

As detailed above, TEC believes that water usage charges should be based on an inclining-block tariff system.

In relation to sewerage usage charges, TEC does not support setting the usage charge to the marginal cost of supply. This would increase the fixed sewerage service charge as a proportion of the bill while reducing the size of usage charges, thus diminishing the resource conservation signal. As noted above, reducing pressure for supply augmentation is not the only goal or benefit of demand management. Reducing demand for water will also reduce the volume of effluent discharged to the sewerage system and thus lessen environmental impacts.

Hunter Water - location based prices

TEC strongly believes that Hunter Water's current 'location based' prices that provide a discount to selected large volume industrial customers should be abolished. TEC has consistently opposed this approach and sees no merit in maintaining this system. Reducing prices for large users diminishes the resource conservation signal conveyed by usage charges, thus undermining demand management. Further, this pricing system reduces incentives for large volume users to adopt effluent reuse. It is essential that large volume users be actively encouraged to adopt reuse to reduce demand on potable supplies and ensure the long term viability of effluent reuse.

It is telling to note comments in Hunter Water's submission to the last price review that:

Hunter Water has recognised for some years that competition is around the corner for the water sector and has a strong record of responding to this emerging competitive pressure.

In the second half of the 1990s, the Corporation observed the new competition regimes developing in other utility sectors, such as electricity and telecommunications, and the potential for similar competition in the water industry.

Competition in these other sectors led to significant price restructuring, especially for large-volume users, with prices under competition more closely reflecting the actual cost of supply to a specific location or business. In many cases, these prices came about as a result of access arrangements or by utilities responding to the threat of access or competition and offering more cost-reflective pricing under contract. In the other sectors, these new price regimes were increasingly replacing the conventional uniform, or postage-stamp, prices. Hunter Water could see that various competition mechanisms, such as access regimes, could easily be applied to water supply in the lower Hunter region with similar results. (HWC, 2008)

It is clear from these statements that Hunter Water's 'location based charges' are designed to undercut recycled water as a source of supply for large industrial customers. TEC sees no justification for maintaining these pricing arrangements.

REFERENCES

Hunter Water Corporation (2008) "Hunter Water Corporation submission to IPART on prices to apply from 1 July 2009" HWC.

Independent Pricing and Regulatory Tribunal (2011) "Review of price structures for metropolitan water utilities", IPART.