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Dr Michael Keating
Chairman
Review of Metropolitan Water Agency Prices
Independent Pricing and Regulatory Tribunal
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By email ipart@ipart.nsw.gov.au

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Dear Dr Keating

Draft Determination - Sydney Water Corporation and Hunter Water Corporation

PIAC is pleased to provide the following comments on the draft determination for water supply, wastewater and stormwater pricing in the Sydney Water Corporation and Hunter Water Corporation.

The draft determination seeks to rebalance fixed and variable charges, introduce a new tariff structure to curb discretionary water use and grant price increases based on increasing costs of supply and drought management. Each of these price movements individually gives rise to social inequities and together they place a significant burden on a large number of households across the region that research indicates are already struggling to make bill payments.

The Tribunal has set prices to meet a range of objectives. Within the current review, it is clear that the Tribunal has sought to use pricing to meet environmental policy objectives, notably through the timing and structure of price increases. In contrast to the consideration given to environmental objectives, the Tribunal has made only a modest attempt to address social issues and objectives. Social objectives are related to equity and affordability in water services. They seek to guarantee that everyone, especially those on the lowest incomes, are able to access water for essential uses at affordable prices. The draft determination acknowledges the new tariff structure and its impact on large and low-income households but suggests that it is the responsibility of the State Government to address adverse affordability outcomes. PIAC believes that it is the role of the Tribunal to use its pricing mandate to accommodate social policy concerns in the same way as environmental policy objectives are accommodated. It is an inadequate response to refer responsibility for social needs to the NSW Government when the Parliament of NSW has entrusted the Tribunal to “ensure that social issues form part of the equation”¹.

PIAC has previously highlighted the social impact of significant price rises in water and wastewater services, which come on top of sustained increases in the cost of other essential services including gas and electricity. PIAC has also been highly critical of the equity

¹ Hansard, 11/12/1991, Government Pricing Tribunal Bill 1R2R, NSW Legislative Assembly

outcomes of an inclining block tariff structure. Our comments in respect of the draft determination are therefore based around improving the robustness of the social program contained in the draft determination and improving the transparency of reporting on forecast demand for water.

Sydney Water's Social Program

We agree with the Tribunal's assessment that the measures outlined by Sydney Water are an inadequate response to the Inclining Block Tariff (IBT), primarily because the structure of the tariff itself creates such unmanageable social inequality. Unless the IBT has a sliding scale for household numbers built into the stepped levels, the price structure will remain inherently flawed and extremely difficult for any agency to address. We acknowledge the work done by Sydney Water to identify opportunities to extend its existing programs to address the needs of those disadvantaged by the reforms.

In particular we acknowledge the work Sydney Water has done to improve water conservation programs for low-income households. As we have noted in the past, these programs enable the business to deliver on water conservation and affordability in the one instance. The introduction of a No Interest Loan Scheme is an important addition to the suite of programs available to low income households. A typical NILS loan, as administered by NSW community organisations, is for around \$600 - \$1000 for an energy/water efficient washing machine, fridge or medical appliance. As loans are repaid over 12-15 months, the money is lent out again to other people in the community.² The funds already earmarked for this program will be a welcome initiative for many needy members of the community. As the scheme progresses we hope that increasing numbers of households will be able to benefit from a no interest loan.

The extension of free retro-fit services to households experiencing financial hardship is also an important innovation.

The Tribunal has put forward its own recommendation for a social program. This involves utilising the existing Payment Assistance Scheme to assess large, low-income households for a tariff rebate based on per capita water usage. However, there are a number of significant problems with this proposal.

- Welfare organisations are not funded to do the type of work outlined by the Tribunal, with only a limited amount of resources available to be directed towards Sydney Water's Payment Assistance Scheme. Welfare agencies typically provide a variety of support to households in financial hardship ranging from food donations to utility payment assistance vouchers. They are primarily staffed by volunteers who are trained in assessing financial hardship, not administering a tariff rebate. If the Tribunal insists on pursuing this model we would suggest that a direct dialogue with these organisations is established.
- The administration of tariff rebates generally forms part of the suite of activities Sydney Water is fully funded to perform.
- If the Tribunal believes that a tariff rebate is the best measure to address affordability under an inclining block rebate, then Sydney Water has the more appropriate mix of expertise to establish billing and credit history as well as being able to maintain data pertaining to household size.

² www.nilsnsw.org.au

- The eligibility criteria is also problematic. PIAC's research into the social impact of utility disconnection highlighted that 80% of households restricted from water supply for non-payment were not health care card holders. Rather, they were households that relied on a salary or wage as their main source of household income. Water affordability is significantly different from other essential services in that all public tenants and many private tenants are excluded from a direct billing relationship with Sydney Water. In order to address affordability under an IBT, the eligibility criteria will need to have greater flexibility. This is discussed further below.
- The Payment Assistance Scheme has been designed to assist households experiencing financial hardship, mirroring the Energy Accounts Payment Assistance available for energy customers in short-term financial hardship. The extended program, as envisaged by IPART would substantially change this direction, without any guarantee that hardships programs could still be successfully delivered.
- The proposed scheme is administratively complex and there is no ability to monitor, evaluate or report on the program and therefore no transparency to ensure that the rebate is targeting the right households.

Rather than using a tariff rebate measure, PIAC recommends that the Tribunal implement a Social Tariff administered directly by Sydney Water to mitigate the impact on households who are disadvantaged by the Inclining Block Tariff structure. The social tariff would meet the same environmental and cost recovery objectives as the standard tariff but it would acknowledge that socio-economic circumstances of some households means that the IBT is an unfair burden. This includes households who;

- a) use a large amount of water for non-discretionary purposes, due to either a health condition or the number of householders, and
- b) are unable to respond to price signals, due to limited financial capacity to invest in water saving technology or as tenants have a limited ability to controls fittings which are causing excessive water consumption;

Sydney Water is best placed to assess which households meet these criteria. For example, a water audit could be carried out to assess the amount of water used for discretionary versus non-discretionary purposes. Additionally, historical data about a household's water use before and after restrictions would be a good indicator of the proportion of discretionary water use. Similarly, an inability to effectively participate in a retro-fitting program or expressed difficulty in making bill-payments would indicate an inability to respond to price signals. The proportion of household income spent on water could also be used to identify candidates for a Social Tariff. Where the price increase for a customer's bill is above the average residential price increase and the customer is assessed as meeting these eligibility criteria, the household should be transferred to the Social Tariff.

We propose that a Social Tariff either charge for all water use at the tier one price or else charges a significantly reduced tier two price.

Addressing Volatility

In principle, PIAC supports the Tribunal establishing the option of a review of prices should actual demand be greatly at variance with that forecast. The use of a 'deadband' also is supported. This combination provides a mechanism to deal with volatility which is not overly sensitive to annual changes in consumption, perhaps driven by climatic factors.

However, PIAC does not support the size of the deadband as proposed by the Tribunal in the draft determination.

Both the Tribunal and Sydney Water have placed great store in a price signal, in the form of an inclining block tariff, leading to reduced demand for water by households and businesses. The proposed IBT is a significant departure from past practice and one which, in our view, relies heavily on assumptions about economic behaviour on the part of water users. Yet there is little concrete evidence to support its introduction.

Accordingly, the Tribunal must ensure that the operation of the IBT is as transparent as possible, particularly in relation to its success (or otherwise) in reducing demand. That is, the Tribunal needs to satisfy itself and the community of the extent to which changes in demand can be attributed to the IBT as opposed to other factors.

We are well aware that significant impacts on demand could come from a future decision by the Government regarding compulsory restrictions on water use. In addition, it is possible that some volatility could be created by short-term changes in weather. On the other hand, the draft determination suggests that the Tribunal expects the IBT to have little impact on demand (see table 4.3 of the Draft Determination).

While the Tribunal's research indicates there is significant community support for the IBT we make the point that this is not the basis on which this new tariff structure must be judged. The introduction of the IBT provides a critical opportunity to study its operation and the success or failure of price signals of this kind. Obtaining reliable data on the correlation between price movements under the IBT and changes in demand must be a priority. Setting the deadband as high as 10% likely will have the effect of conflating the impact of these different factors and obscure any impact of the IBT.

Accordingly, we believe it is not reasonable for the Tribunal to wait for demand to reach as high as 10% above its forecasts before it considers the need to address over-recovery. A more transparent figure would be +/- five per cent.

Finally, we make the point that providing a trigger for a review of prices does not require that prices be changed during the period of the determination. The Tribunal can commit itself to considering the changes in demand, for example from changes to water restrictions, without undertaking to move prices. Nor can it be assumed that the IBT will have a greater impact on demand than these other factors. We suggest that continued water restrictions, rather than weather or the IBT, will have the greatest influence on demand during the period of the next determination. However, any removal of water restrictions likely would have only a small short-term effect on demand.

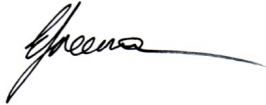
Other matters

The Tribunal's survey into Household Water Attitudes has been heavily relied on to justify the introduction of the IBT in the draft determination. The research clearly indicates that while households support prices that are aimed at high users, the majority of households regard themselves as neither high-users nor above average users. Where there is such a discrepancy in how water usage is understood at the household level, it is questionable how reliably the research can be used to support a new price structure.

We welcome the decision not to introduce a late payment fee for Sydney Water customers, noting that the overheads relating debt management are already recovered through current charges. This has important social policy implications for low-income households, which tend to be burdened to a greater degree than other households by fees and charges on essential services.

It should also be noted that since the public hearing in March this year, the NSW Government has indicated that Department of Housing tenants will shortly be liable for water charges. The details of these charges are still being determined as is the nature of the relationship between the public housing tenants and the Water Authorities. In any case, we would suggest that there will be increasing pressure on both retrofit and payment assistance schemes as a result of this policy change, resulting in expansion of the schemes to account for the increased demand.

Yours sincerely
Public Interest Advocacy Centre Ltd

A handwritten signature in black ink, appearing to read 'Elissa Freeman', with a long horizontal flourish extending to the right.

Elissa Freeman
Policy Officer