

Independent Pricing and
Regulatory Tribunal
Level 2, 44 Market Street
Sydney
NSW 2000

Attn: Mr Con Read

Facsimiled to: (02) 9290 2061

11 March 2005

Dear Sirs,

PRICE STRUCTURES TO REDUCE THE DEMAND FOR WATER

Thank you for sending me IPART's final report on the above, a copy of Gosford Council's submission regarding its own pricing proposals and a copy of the Tribunal's previous determination for Gosford.

In evaluating the opinions expressed herein, kindly note the ...

Declared Interests

- * A Gosford City resident of close on 9 years.
- * A part-owner of a small, separately-metered, free-standing residential property on a medium-sized block of land.
- * One of two adult occupants, both of whom are in residence for most of the day/night on most days of the year.
- * The dwelling contains no water-efficient plumbing systems, appliances or gadgets, other than a 9-year-old, AAA-rated (average) front-loading washing machine.
- * There is no external use of town water - a bore provides adequate supplies.
- * Internal water use is low, approximately 80 KL per annum.
- * Household income is in the bottom (first) quintile.
- * Water consumption costs, including the fixed fee, account for $\leq 1\%$ of total household expenditure.

Two Tiers or Not To Tier?

The application of a multi-tiered pricing structure, endorsed in principle by Gosford Council, and one as envisaged by the Tribunal as a demand-management tool for residential users, is **not supported** for the following reasons.

1. It is the number of household members, rather than the metered residence, which consumes water inefficiently or efficiently, excessively or sparingly. Inclining block tariffs, supposedly acting as a consumption deterrent, which do not recognise the former as the consuming entity, send a distorted and confusing message. There is also the issue of equity since, under the models exemplified, a large household with average or slightly above average consumption is classified as equally errant as a wasteful, smaller household.
2. In the Tribunal's efforts to minimise the impact of inclining block tariffs on the vulnerable, very few households (and ref. '1' above, some, if not many of those being undeservedly so) would be

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subject to the higher tariff "stick". Coupled with the quoted PED data, the contribution of this approach to water saving (1.8% to 6.4%) is minimal relative to an assumed eventual objective of something nearer 40%.

3. That ^{up to} 67.7% (option 1a) or 82.1% (option 1b) of households would experience a reduction in their bills for water consumption at their current levels might even result in the very opposite effect to that intended. Such a pricing structure could encourage those fortunate households to actually increase consumption, if the PED logic is applied as outlined in Box 3.1.

Formal Restrictions - Impact of

The introduction of "mandatory" restrictions on what the Tribunal considers to be "discretionary" use has achieved a reduction in consumption (as opposed to demand!) on the Central Coast of about 20%. To achieve such a reduction through the application of economic (rationalist) theory would suggest water bills would need to double - hardly a politically and socially acceptable solution, if implemented overnight.

The restrictions are notoriously difficult to police (apparently there have been no financial penalties imposed by Gosford and Wyong since the inception of restrictions in February 2002) and presumably their success has been a result of the community's goodwill, arising from its members' sense of altruism. Whether this goodwill can continue to be maintained, without the introduction of additional measures to engage the community in the problem and its solution, is an issue outside of IPART's current brief.

Preferred Pricing Structure

IPART should be aware that the reduced consumption on the Central Coast has resulted in a significant drop in revenue for the two councils. That, coupled with cost increases/expenditure commitments, necessitate an immediate increase in water charges. That Gosford Council currently seeks an across-the-board increase for all users with a single-tier pricing structure is fully supported for the following reasons.

1. Every user will experience an increase in water bills, albeit indirectly for some, and this, if accompanied by an appropriate explanation, should get the message across about water's scarcity value and the need to seriously consider a voluntary reduction in consumption before something worse eventuates. A very strong message.
2. A single usage charge for each kilolitre of water consumed is equitable because it targets the inefficient and wasteful household consumer(s), rather than the efficient/frugal consumer(s).
3. The prices which Gosford and other councils are permitted to charge for water are ridiculously low for such a valuable and increasingly scarce resource. Even with a (near) 20% increase in the usage charge, the average size household with average consumption would pay less than one additional dollar per week on water. Would this increase, or even double the amount, significantly disadvantage the low-income household when a re-prioritising of this level of expenditure is within the realms of feasibility?

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4. Single-metered residential complexes will be charged on the same (equitable) basis, i.e. there being no need for two separate and discriminating structures had the two-tiered system been introduced for selective households.

Whether a change in the fixed charge should accompany any increase in the usage charge (as per option 2) will be determined by the desire, or otherwise, for revenue neutrality.

Related Matters

Since this belated submission will be "filed for possible future reference", i.e. when IPART next considers water pricing, with perhaps an expanded brief to consider related issues, the Tribunal may care to note the following.

The semi-voluntary, formal restrictions on "discretionary" consumption, the (gradual) voluntary conversion of existing households to water efficiency and on-site recycling, and the introduction of any (token) demand-management pricing structure may still not be enough to balance supply and demand in the long term. In the submission to Gosford Council on its short-term water supply options, it was argued that guideline consumption targets should be set for all households based upon the number of occupants, so that each household has something specific to aim for. (It is acknowledged that actual consumption by households of the same size will vary according to, for example, the total time spent in residence and not, therefore, consuming other users' water.) It was further argued that how these households aim to meet their targets is up to them, whether it be through water-saving systems/devices, rain-water tanks, securing a bore licence, reusing shower/laundry water for toilet flushing and/or only flushing the toilet for "number 2s". Applying the same argument to the Tribunal-defined discretionary water use, what particular water use a household chooses to save in reducing overall consumption is again up to them. For some, a well-maintained oasis of native and exotic vegetation may be far more important than showering every day or flushing the toilet after each visit. No doubt other residents of the locale, viz the native fauna, would agree with that sentiment.

The use of guideline targets is about engaging the community at a level its members can relate to. But, if all of the approaches described fail in the long term to balance supply and demand, then perhaps the only solution is the introduction of water quotas.

Setting equitable quotas for individual households, depending upon the number of regular occupants, would be difficult, but not impossible. It would certainly facilitate the introduction of multi-tiered inclining block tariffs. Quotas could be reformulated regularly according to consumers' (including commercial and industrial) changing supply needs/wants and to (anticipated) availability of supply. This would entail fairly stringent water supply contracts, negotiated say annually, which would have higher tariffs for high consumption and penalties for exceeding the not-in-excess-of contracted quota.

It is hoped that such measures, as experienced by Europeans during and post-World War II with other essentials, will not have to be introduced. But there's nothing like the threat of a Sword of Damocles to

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concentrate the mind of consumers on reducing their consumption.

Thank you for the opportunity to express these views outside of the normal review and submission process.

Yours faithfully,

Malcolm Fowler

PS In Table 3.1 of IPART's report, there is an anomaly in the figure for 5-person households; this is carried through to the 6-person household. Is there a ready explanation?