



public interest
ADVOCACY CENTRE LTD

Affordable water: Submission to IPART
Review of prices for Sydney Water Corporations – draft determination

23 April 2008

Hugh O'Neill

Policy Officer

Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that identifies public interest issues and works co-operatively with other organisations to advocate for individuals and groups affected.

PIAC seeks to promote a just and democratic society by making strategic interventions on public interest issues in order to:

- expose unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate;
- promote the development of law—both statutory and common—that reflects the public interest; and
- develop community organisations to pursue the interests of the communities they represent.

Energy + Water Consumers' Advocacy Program (EWCAP)

This Program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the Program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the Program from a community-based reference group.

Introduction

PIAC is pleased to provide comment on the Independent Pricing and Regulatory Tribunal's (IPART) draft determination for the review of prices for Sydney Water Corporation (SWC) water, sewerage, storm-water and other services (the Determination).

The Determination makes some very significant changes to the amount and method of calculating water prices. While it is likely that all consumers will experience a price increase to some degree, some consumers will have proportionally larger increases, and others will not be in a strong position to absorb the increases.

PIAC recognises that SWC will have considerable capital expenditure outlays to pay for a variety of infrastructure developments and consumers will now have to face the true cost of the NSW Government's decision to build a desalination plant at Kurnell. However, PIAC seeks to ensure that water-service cost increases are necessary and, in recognition of the essential nature of water, delivered so that they have as small an impact on consumers, particularly disadvantaged consumers, as possible.

To achieve this end, PIAC supports many of the recommendations made in the Determination, particularly regarding miscellaneous charges. However, there are a number of recommendations that PIAC does not believe consumers will benefit from or which require further consider. PIAC's comments on these are provided below.

Price increase

The Determination is IPART's second water determination in a row to set sizeable annual above-CPI price increases. The recommended price increase of 28% over four years will have a significant impact on SWC customers, who will also need to meet above-CPI price increases in relation to electricity and gas supply.

Price path

The Determination sets a price path that sees consumers paying an extra 13% for water services in the first year of the determination period, with the size of the annual percentage increase dropping to an extra 2% in the final year. A price path set in this fashion greatly increases the severity and number of consumers likely to suffer price shock. This is particularly the case for disadvantaged consumers, as a 13% increase is a substantial impost for low-income or fixed-income households.

The benefit of setting a price path in this manner needs to be weighed against the damage that is caused by price shock. Support must be given to minimise the extent to which consumers suffer price shock.

Structure

PIAC has concerns about the fact that the service charge will increase by a huge 80% over four years, whilst consumption charges will increase by a proportionally smaller 37% for average residential users (still an increase significantly above CPI). High-volume consumers will not have to pay more for their water over the next four years, while low-volume consumers will pay substantially more. This discriminates against lower consumption households, typically those on lower incomes, and has other implications for consumers.

Under the proposed price structure, low-income, low-consumption households will be subject to significant price shock. IPART has not proposed any specific concession schemes designed to assist these households.

The increase in service charge is likely to decrease the incentive for consumers to invest in water-efficient appliances, and does not reward those that have already made the investment. With the possibility of fewer consumers investing in water efficiency appliances, this may have flow-on effects for the take up of SWC's demand-management programs, which may further affect SWC's ability to adhere to its water conservation target in its operating licence.

The increase in service charge is to accommodate the removal of the inclining block tariff (IBT). But in removing the IBT and substantially increasing the service charge, a balance has not been achieved. There will simply be a switch from high-volume consumers paying proportionally higher bills than low-volume consumers, to low-volume consumers paying proportionally higher bills than high-volume consumers.

Whilst PIAC acknowledges IPART's approach to designing the price structure, economic theory must be balanced against social policy and the public interest. PIAC recommends IPART adopt a more balanced approach so that service charges remain a small proportion of a consumer's bill, leaving the majority of the bill (through usage charges) to reflect the volume of water actually consumed. This approach would also remove proportional inequalities between bills for low-volume and high-volume consumers.

Pass through of Sydney Catchment Authority (SCA) costs

The SCA's bulk-water costs to be passed through after 2009 have the potential to substantially increase customer bills after 2009. The necessity of long-term affordability of water for consumers requires IPART to recognise this and establish a contingency plan to deal with the possibility that SCA pass-through costs result in prices in excess of a specified level (as determined by IPART, in a fashion similar to IPART's annual review of market-based electricity purchase-cost allowances).

Water consumption forecasts

SWC's current operating licence sets a water conservation target of 329 litres per capita per day by 2011.¹ Based on current figures, SWC is likely to achieve this target as consumption levels have dropped from 425 litres per capita per day in 2001 to 389 litres per capita per day in 2007.²

However, the Determination has endorsed SWC's proposed consumption forecast of 426 litres per capita per day.³ This creates a divide between what SWC is seeking to achieve in its operating target and what it expects to receive in revenue. This difference has implications for consumers. For instance, according to SWC, the difference between actual and forecast consumption during the last price determination period, resulted in approximately a \$200 million shortfall in revenue for SWC.⁴ Essentially it creates the phenomenon where SWC operates at a loss if it achieves the requirements of its operating license.

PIAC recommends that IPART apply pricing principles that enable SWC to receive a revenue amount calculated on the forecast consumption level, but that also provides incentives to meet its operating licence water conservation target without foregoing revenue. This could take the form of the 'D-factor' in the electricity distribution industry.

This avoids SWC seeking price increases at the beginning of a new price determination period to make up for shortfalls in revenue from previous determination periods. Water conservation incentives also reduce the pressure on costly supply augmentation measures, such as constructing desalination plants.

Desalination plant

PIAC notes that 45 per cent of the price increase is to pay for the desalination plant at Kurnell and related infrastructure. Sydney residents will be paying \$23 per year per household (according to IPART) or up to \$232 million per year in total (according to SWC) for a plant that they will not need over the period of the Determination (given that storage is now around 66% and usage is typically about 15% of total storage capacity per year), and that may not be needed beyond this period if other supply augmentation and demand management measures are pursued aggressively by SWC.

PIAC supports the Total Environment Centre's concerns, recognised in the Determination, regarding shutting down the desalination plant only when dams levels fall below 70% to 80%.⁵ This policy has significant

¹ Sydney Water Corporation Operating Licence 2005-10, section 9.1.

² Figures provided by Sydney Water.

³ IPART, *Review of prices for Sydney Water Corporation's water, sewerage, stormwater and other services – Draft Determination* (2008) 64.

⁴ Sydney Water Corporation, *Submission to the Independent Pricing and Regulatory Tribunal Review of Prices for Sydney Water Corporation* (2007) x.

⁵ IPART, above n5, 31.

environmental and consumer cost implications and deserves further investigation, particularly to determine whether it is more environmentally or cost efficient for consumers to operate the desalination plant only as a critical drought relief measure.

PIAC recommends IPART conduct analysis of how costs would change based on having different on/off guidelines for operating the desalination plant. This is an appropriate measure as it would mimic IPART's examination of the efficiency and cost of bulk water for the SCA.

PIAC notes IPART's scrutiny of the estimated renewable energy costs of operating the desalination plant. Whilst IPART has indicated that it will conduct a more thorough review at the next price determination, PIAC recommends that once the operating contract has been finalised, and particularly after the desalination plant comes online, IPART pay close attention to energy supply arrangements and costs.

Scarcity pricing and inclining block tariffs (IBTs)

PIAC does not believe that inclining block tariffs (IBT) or scarcity pricing are policies that effectively target high discretionary consumers. PIAC has consistently argued that as water is an essential service, and has low price elasticity, price is a poor way to manage demand and reduce consumption. Scarcity pricing and IBTs are therefore an inefficient and inappropriate method of conserving water.

PIAC's analysis shows that IBTs are a blunt demand management tool for a number of reasons:

- *Consumers do not see the signal; or don't react if they do.*
Potentially as a result of the infrequency in billing, only 63% of households using over 500 kL per annum were aware that there was a two-tier pricing system and less than half claimed they had changed their consumption due to the two-tier system.
- *IBTs do not necessarily target non-discretionary consumption.*
Whilst there is a tendency for households consuming more than 500 kL per annum to have more water intensive appliances in the home (33% had a pool compared to the average of 11%),⁶ 80% of these households have children and the average household size for household using more than 500kL per annum is 4.7, compared to 1.6 for those using less than 100kL per annum.⁷ Consumption is determined and charged per household, not per head, making it difficult to determine the non-discretionary consumption of the consumer.
- *IBTs affect large numbers of low-income consumers.*
As the table below illustrates, despite being less able to afford higher water bills than high-income consumers, IBTs affected nearly as many low-income consumers as high-income consumers.⁸

⁶ IPART, *Residential energy and water use in Sydney, the Blue Mountains and Illawarra – Research Paper 29*. (2007) 39.

⁷ IPART, above n6, 33

⁸ Gerard O'Dea and Jennie Cooper, *Water scarcity: Does it exist and can price help solve the problem?* (2008) 7.

IBT-affected:	Number of households affected	Percentage affected
Low income	19,500	16%
Average (middle) income	74,500	62%
High income	26,000	22%
Total	120,000	100%

PIAC therefore supports IPART's decision to remove IBTs.

However, it does not support IPART's justification for this decision: that it does not consider Sydney to be facing short-term water scarcity, and therefore an IBT is no longer warranted. This justification does not acknowledge that price is a poor way to reduce consumption, and leaves open the reinstatement of IBTs should Sydney's water supply again become scarce. It also appears at odds with IPART's decision to reject the introduction of scarcity pricing because of its inability to protect vulnerable consumers from very large price increases.

IPART's assertion that Sydney is no longer facing water shortages in the short term should not be cause for governments, SWC or IPART to abandon water-conservation measures or alternative collection and storage strategies. PIAC believes that this attitude in the long term will lead Sydney away from sourcing water self-sufficiently and too soon require consumers to pay for the construction of another desalination plant.

Miscellaneous charges

Late fee

PIAC supports IPART's decision to reject the imposition of late payment fees, as recommended in PIAC's submission to IPART's review of prices for SWC Corporation 2008-2012. PIAC notes that this does not preclude SWC from providing non-punitive incentives to consumers for timely bill payment.

Credit card

PIAC supports IPART's decision to reject the imposition of credit card payment fees, as recommended in PIAC's submission to IPART's review of prices for SWC Corporation 2008-2012.

Meter refit proposal by Sydney Water

PIAC supports SWC's goal of reducing the number of consumers that have larger than 20mm meters connected to their property. However, SWC should bear the cost of refitting the meters, rather than imposing penalties on consumers, because the meters were originally installed by SWC, and the benefit of the transition is to SWC. PIAC therefore supports IPART's decision not to increase the fixed-fee charge for consumers that have larger meters.

Concessions policy

SWC operates an inclusive and important concessions scheme, and PIAC acknowledges SWC's innovative programs that deliver water efficiency and affordability to consumers. However, hard work will be required to provide relief to disadvantaged consumers who will face considerable challenges in meeting the price increases proposed in the Determination.

Increasing pensioner rebate

Pensioner rebates currently cover 100% of the water service charge and 81% of the sewer service charge. As the Determination proposes service-charge increases of 80%, SWC will need to drastically increase the pensioner rebate to cover this increase. PIAC strongly recommends that the pensioner rebate be increased to maintain these relativities; that is, to cover 100% of the water service charge and 81% of the sewer service charge.

Payment Assistance Scheme (PAS)

Due to the extent of the proposed price increase, and the fact that the majority of the increase will be applied in the first year of the determination period, PIAC anticipates an increase in the number of consumers seeking assistance through PAS, as well as the amount sought per consumer.

Appropriate funding and resources must be provided for this vital assistance scheme for vulnerable consumers.

PIAC also notes that more demand will be placed on PAS resources if reforms to the residential park industry enable residential park tenants to access PAS. PIAC supports these reforms.

Large household rebate

PIAC does not support IPART's recommendation to remove the large household rebate. The rebate assists low-income⁹, large households with low-discretionary, high-volume consumption.

Although the phasing out of IBTs removed the original impetus to introduce the rebate, the price of water will not decrease from \$1.83 per kL for these consumers. Indeed, prices will increase for these consumers through increases in the service charge.

Furthermore, PIAC considers IPART's recommendation to phase out the large household rebate contrary to its statement that 'customer impact mitigation is primarily the responsibility of the Government'.¹⁰

The rebate remains an important scheme that specifically targets vulnerable consumers with low-discretionary consumption. Unless it can be demonstrated that the circumstances facing these consumers has changed so that they no longer have a need for the concession, it should not be removed.

⁹ Holders of Centrelink Health Care Cards.

¹⁰ IPART, above n3, 115.