



## **IPART: Review of price structures for metropolitan water utilities**

**4 August 2011**

**Erin Halligan, Policy Officer**

**Energy + Water Consumers' Advocacy Program**



# **1. The Public Interest Advocacy Centre**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation. PIAC works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC seeks to:

- expose and redress unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate on issues affecting legal and democratic rights; and
- promote the development of law that reflects the public interest;
- develop and assist community organisations with a public interest focus to pursue the interests of the communities they represent;
- develop models to respond to unmet legal need; and
- maintain an effective and sustainable organisation.

Established in July 1982 as an initiative of the (then) Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC receives funding from the NSW Department of Trade and Investment, Regional Infrastructure and Services for its work on energy and water, and from Allens Arthur Robinson for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

# **2. Energy + Water Consumers' Advocacy Program (EWCAP)**

EWCAP 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 EWCAP from a community-based reference group the members of which include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- Park and Village Service;
- Ethnic Communities Council NSW;
- Rural and remote consumers;
- Physical Disability Council of NSW

### 3. Introduction

PIAC welcomes the opportunity to comment on the Independent Pricing and Regulatory Tribunal of NSW (IPART) *Review of price structures for metropolitan water utilities* (the Review).

PIAC understands that IPART, as the price regulator for water and sewerage services for the NSW metropolitan water utilities of Sydney Water Corporation (Sydney Water), Hunter Water Corporation (Hunter Water), Gosford City Council and Wyong Shire Council, has some concerns about the equity of the current pricing structures of these service providers.

IPART is principally concerned that the price structures are currently not cost reflective, and this has contributed to inequitable cross subsidisation of services for some consumers by others.<sup>1</sup> IPART contends that this has led to some residents of multi-premise dwellings who access a common meter - such as units, flats, and townhouses - paying 40% to 50% of the water service charges paid by residents in freestanding houses. Further, other residents in multi-premise dwellings are also paying 100% of this charge if their home is individually metered.<sup>2</sup>

In seeking solutions to these inequities, IPART has developed four recommendations for amending the current price structures:

1. Do nothing and leave price structures as they are;
2. Charge all residential premises a common service charge;
3. Adjust the residential meter size and then charge all properties based on water meter size; or
4. Charge multi-premise dwellings a fixed percentage of the service charge for houses.<sup>3</sup>

PIAC offers in-principle support for IPART's pursuit of equity for NSW water consumers as part of this review. EWCAP advocates for all residential consumers in the NSW energy and water markets, particularly for low-income and vulnerable households. It is important that all NSW households have fair and equitable access to water as an essential service. No household should be subsidising access to this service for others simply due to inconsistencies in the price structures, where these inconsistencies have no rational or sound justification.

However, PIAC would like to note that the removal of pricing inconsistencies may not necessarily be consistent with the promotion of overall equity in water access and service for NSW consumers of the four utilities. As presented in IPART's consultation for the Review, there have been many catalysts and variables affecting the developments of the existing price structures across the four utilities over the past two decades. PIAC is concerned that the Review is seeking uniform equity for all NSW consumers by simplifying these existing structures, and, by doing so, may be overlooking the existing merits in the status quo.

PIAC also has concerns that IPART's proposed changes to the current pricing structures, to remove the identified inconsistencies, may adversely impact some consumers. PIAC is particularly concerned about changes that will result in increases to household water bills.

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<sup>1</sup> IPART, *Review of price structures for metropolitan water utilities* (2011) 1.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

It is acknowledged in the Review that the amendments to water price structures currently under consideration may lead to transitional difficulties for customers and utilities. These are likely to include increases in charges paid by some consumers, as well as increases in overall costs to all consumers through changes in administrative structures.<sup>4</sup>

PIAC is concerned that not all consumers will be able to easily absorb these price rises through managing their household budgets, particularly as these price rises are being considered at a time of rising water and electricity prices.

Furthermore, as the Review highlights, the considered price increases will mainly affect residents in multi-premise dwellings who access a common meter.<sup>5</sup> Residential owners in these dwellings are bulk metered and have limited ability to offset rises in their billing through reduced consumption. PIAC is concerned that the short-term financial implications for these consumers has not been fully assessed in the Review process.

In order to understand the full scope of the potential negative impacts that may result from these amendments, PIAC recommends that a comprehensive cost-benefit analysis be included in the decision-making process. PIAC recommends that this analysis happen in close consultation with consumer representatives and advocacy bodies, particularly the Energy and Water Ombudsman of NSW (EWON) as well as PIAC.

Finally, PIAC encourages a review of the consistency of customer protections available to NSW consumers across all four utilities. In seeking equity across the charging structures, PIAC believes it is equally important to seek consistency and equity of access to rebates, payment vouchers and payment arrangements that will help consumers remain connected to this essential service.

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<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

## 4. Review process

IPART first identified the need for this Review when conducting the previous price reviews of Sydney Water in 2007/8, and the Hunter Water, Gosford City Council and Wyong Shire Council price reviews in 2008/9. In each of these reviews, IPART found that elements in the price structures of the four utilities were creating inequities for their customer groups.<sup>6</sup>

At this time, IPART believed there was an insufficient evidence base to develop recommendations to address these inequities. IPART subsequently made plans to undertake additional work and analysis in order to build an evidence base for a formal review of the metropolitan water pricing structures, to be completed prior to the next price reviews of the four utilities.<sup>7</sup> The next price review for Sydney Water is currently underway, scheduled over 2011/12. The price reviews for the other three utilities are scheduled over 2012/13.<sup>8</sup>

PIAC is concerned that, although IPART identified the need for analysis of metropolitan price structures in the 2007/08 and 2008/09 price reviews, a broader consultative process for discussing potential changes has only commenced in June 2011 with a relatively short time frame for community consultation.

PIAC understands that it is imperative for this consultation to take place before the price reviews of the four utilities, as it has been indicated to IPART that over the next 4-5 years all four utilities will be seeking new billing and information systems. IPART has stated that by reviewing the price structures at this time, it will allow for implementation of any reforms without incurring substantial additional costs.<sup>9</sup>

PIAC understands that the Review will mark a key shift in the future of water pricing and supply to metropolitan areas in NSW. Additionally, the results of the Review will feed into the price determinations for all four utilities. Given the scope of this impact, and the short time frame for consultation to this process, PIAC believes that it is crucial for IPART to proactively engage with consumer stakeholders in the next steps of this review process. PIAC encourages IPART to seek comment from consumer stakeholders from across all four utility service areas. As PIAC is concerned about the potential financial impacts to consumers, PIAC suggests IPART consult directly with community workers, financial counsellors, and representatives from the customer support centres from each of the four utilities.

Additionally, PIAC recommends IPART seek broad consumer engagement at the roundtable hearing, which is scheduled for 29 August 2011. PIAC understand this process will be discussing the draft decisions from the Review, and PIAC believes this is an important opportunity for consumer representatives to meaningfully contribute to this process.

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<sup>6</sup> Ibid, 4.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

## **Recommendation**

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*PIAC recommends that IPART proactively seek comment from consumer stakeholders in the remainder of the Review by engaging consumer representatives in further discussions. Additionally, PIAC recommends IPART seek broad consumer engagement in the public roundtable hearing for the proposed changes, scheduled for 29 August 2011.*

## **5. Consumer impacts**

### **5.1 Price increases**

Underpinning this Review is the recognition that there are inequities in the water and sewerage charges levied for residents in multi-premise dwellings when compared to residents in freestanding homes.

As noted above, as part of the Review's discussion, IPART has developed and analysed four options for amending the price structures:

1. Do nothing and leave price structures as they are;
2. Charge all residential premises a common service charge;
3. Adjust the residential meter size and then charge all properties based on water meter size; or
4. Charge multi-premise dwellings a fixed percentage of the service charge for houses.<sup>14</sup>

PIAC offers in-principle support for the Review's pursuit of equity across NSW metropolitan water pricing structures. However, PIAC has concerns that addressing these inconsistencies could result in broadening the gap in affordability, at a time when many low-income and vulnerable households are already relying on financial assistance to manage household budgets.

Although the Review acknowledges that the full cost projections for each option cannot be accurately estimated at this point in time, it is understood that any changes that function to reduce cross subsidisation from one group to another inevitably result in an increase in costs for some consumers. For example, IPART has indicated that in adopting the proposed second option of charging all residential premises a single common service charge across the four utilities, the following price changes have been forecast:

*Sydney Water:* Average water bills for houses would fall by 5.1%, from \$547.61 to \$520.81.

Average water bills for multi-premise dwellings would rise by 11.3%, from \$392.21 to \$436.66.

*Hunter Water:* Average water bills for houses would fall by 0.8%, from \$422.23 to \$418.91.

Average water bills for multi-premise dwellings would rise by 4.8%, from \$327.36 to \$342.96.

*Gosford and Wyong Councils:* No change to prices.<sup>15</sup>

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<sup>14</sup> Ibid.

<sup>15</sup> Ibid, 21.

Although these projected changes result from an attempt to address the current charging inconsistencies so as better to reflect a user pays system for all consumers in the long term, a rise of 11.3% for a low-income household in the Sydney Water jurisdiction would be difficult to absorb in the short term.

It is also important to note that any service charge rises will be added on to the changes in overall water charges IPART will be determining over the next two years. As a benchmark, in IPART's most recent determinations of water prices for each of the four metropolitan water utilities, the annual bill of a typical residential household using 200 kilolitres of water was forecast to increase by:

- 32.6% for Sydney Water residents, over the period between 2007/8 - 2011/12;<sup>16</sup>
- 30.7% for Hunter water residents, over the period between 2009/10 - 2012/13;<sup>17</sup>
- 15.1% for Gosford City Council residents, over the period between 2009/10 - 2012/13; and<sup>18</sup>
- 20.7% for Wyong Shire Council residents, over the period between 2009/10 - 2012/13.<sup>19</sup>

The Review also acknowledges that the implementation of any of the four options will also result in some transitional administration costs from the utility. These costs will be attributed to changes in billing systems and retailer administration, and it is expected that these costs will also be passed through to households.

PIAC understands that IPART intends to roll out any changes to the price structures over a 4-8 year period in an effort to smooth transitional impacts. However, PIAC has concerns that these changes to price structures for metropolitan water utilities will cause increases to water bills for some households, at a time when NSW consumers will face other increases to water prices, as well as managing overall increases in household expenditure. From 1 July 2011, households across NSW have experienced an increase to the regulated retail prices for electricity, which IPART has forecast will see prices of annual electricity bills rise by approximately \$216, \$230 and \$316 for customers in Integral, Energy Australia and Country Energy supply areas respectively.<sup>22</sup>

Given the potential impacts, PIAC recommends that IPART conduct a thorough cost-benefit analysis of the considered amendments, particularly reviewing the potential short-term financial impacts for low-income households in NSW, before a decision is reached on a future course of action.

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<sup>16</sup> IPART, *NSW Water Fact Sheet 4: Review of Prices for Sydney Water Corporation's water, sewerage and stormwater services* (2008).

<sup>17</sup> IPART, *Fact Sheet: Prices for the Hunter Water Corporation* (2009).

<sup>18</sup> IPART, *Fact Sheet: Prices for Water Supply, Wastewater and Stormwater Services for Gosford City Council and Wyong Shire Council* (2009).

<sup>19</sup> Ibid.

<sup>22</sup> Independent Pricing and Regulatory Tribunal, *Changes in regulated electricity retail prices from 1 July 2011: Final Report* (2011) 4.

### 5.1.1 Economic justification for overall equity

Although PIAC has offered in-principle support to the Review's pursuit of equity for NSW water consumers, PIAC is concerned that amending the existing price structures may not necessarily be consistent with the promotion of equity for water services for NSW consumers, particularly for consumers in multi-premise dwellings accessing a common meter.

It was noted in IPART's recent research report following the 2010 household survey on *Residential energy and water use in Sydney, the Blue Mountains and Illawarra*, that multi-premise dwellings were excluded from the analysis of the relationship between water consumption and dwelling type, as 'most consumption in these dwellings was bulk metered'.<sup>23</sup>

Given the lack of analysis on consumption patterns for multi-premise dwellings in IPART's most recent household survey report, PIAC is concerned that there may not be adequate justification to support some of the considered amendments in the Review. This is particularly of concern for the proposed changes to increase service charges for multi-premise dwelling households accessing common meters. PIAC contends that these residences may have lesser service requirements, as they are bulk metered, and it may be more equitable for these households to continue paying the lesser service charges under the existing arrangements.

PIAC recommends that, as part of the cost-benefit analysis, a full review of the merits of the existing pricing structures is undertaken. PIAC is concerned that in simplifying the price structures, aiming for more uniform application, IPART may be overlooking some existing equities in the current system.

PIAC would also like to request that any additional information IPART may already have on demographics and consumption behaviours of residents in multi-premise dwellings be made publicly available. This information would be beneficial in informing stakeholders on the impacts of the proposed changes in the context of current service delivery needs.

### 5.1.2 Rental properties in multi premise dwellings

As it currently stands, landlords in NSW are responsible for paying all service charges for water and sewerage issued by the local water supply authority; however, they are able to require tenants to pay usage charges.<sup>24</sup>

In a recent submission by the Tenant's Union of NSW to the Productivity Commission's *Public inquiry into Australia's Urban Water Sector*, it was noted that in circumstances when landlords

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<sup>23</sup> IPART, *Residential energy and water use in Sydney, the Blue Mountains and Illawarra: Results from the 2010 household survey* (2010) 94.

<sup>24</sup> NSW Department of Fair Trading, *Passing on water charges*, 10 June 2011, NSW Government. <[http://www.fairtrading.nsw.gov.au/Tenants\\_and\\_home\\_owners/Being\\_a\\_landlord/During\\_a\\_tenancy/Passing\\_on\\_water\\_charges.html](http://www.fairtrading.nsw.gov.au/Tenants_and_home_owners/Being_a_landlord/During_a_tenancy/Passing_on_water_charges.html)>

were unable to pass on water service charges directly to their tenants, charges are passed on indirectly through increases to rental charges.<sup>25</sup>

As the Review has acknowledged, the recommendations proposed for changes to price structures for NSW metropolitan water utilities will result in increases in service fees, particularly for owners of homes in multi-premise dwellings. With this predicted increase in charges, PIAC is concerned that these costs might be indirectly passed through to the tenants occupying the homes. PIAC recommends the Review consider this implication when analysing the costs and benefits of the proposed changes.

### **5.1.3 Water usage**

In levelling out the charging structure for all households in the NSW metropolitan area, residents in multi-premise dwellings with common meters will see their service charges rise, as they are currently paying 40-50% of the charges paid by individually metered homes.

This will mean home owners in multi-premise dwellings will have an increase in their water service charge. However, as they access a common meter they will not be able to offset the rise in their bill by reducing their consumption. Usage charges for multi-premise dwellings with common meters are divided based on a total consumption amount for the billing. This means an individual homeowner is unable to offset the increase to the service charge by reducing their consumption.

PIAC believes it is important to consider this impact when considering changes to the service charges, as not all households will be able to absorb additional costs as well as others. PIAC recommends this be taken into account when considering the costs and benefits of the proposed changes.

#### ***Recommendation***

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*PIAC recommends that IPART takes a consumer impact approach in measuring costs and benefits of each the proposed options, particularly measuring the short-term impacts of financial stress that may be incurred with water service charge increases.*

## **5.2 Consumer protection**

In order to achieve equitable delivery of water services to all NSW metropolitan consumers, PIAC believes there must be equitable and consistent provision of financial assistance for all households serviced by all four utilities.

### **5.2.1 Financial assistance**

PIAC understands that customers with Hunter Water and Sydney Water are currently able to access assistance through their retailers in times of financial hardship. Sydney Water and Hunter

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<sup>25</sup> Tenants Union of NSW, Submission to Australian Productivity Commission, *Public inquiry into Australia's Urban Water Sector*, 20 May 2011, 1.

Water customers are able to seek assistance through the Payment Assistance Scheme (PAS), and are also able to make bill payments through Centrepay. However, customers with Gosford City Council and Wyong Shire Council are not able to access the same assistance through their retailers. Although they are able to organise payment plans, the PAS and Centrepay arrangements available to Sydney Water and Hunter Water customers are not available to them.

PIAC believes these financial assistance programs are crucial in ensuring uninterrupted access to water as an essential service for households experiencing financial hardship. In the case of Sydney Water, there is evidence to suggest that these programs are being increasingly used by customers experiencing payment difficulties. During January-March 2011, the number of customers seeking payment arrangements or extensions increased compared to the corresponding period last year. Defaults on payment arrangements, and extensions, also increased, as did residential flow restrictions.<sup>26</sup>

PIAC's research on experiences in utility disconnections, *Cut Off II*, found that a greater proportion of the 'working poor' in NSW were facing flow restriction. It was reported that this was typically due to lack of awareness of the support available to them, as well as ineligibility by some customers for the types of support available.<sup>27</sup>

PIAC believes that in reviewing the equity of charges for service provision of water by the four metropolitan utilities, IPART also must review the inconsistencies in customer assistance available to households serviced by each of these retailers. Water is an essential service, and no consumer should be flow restricted or have disrupted service from accessing water because of an inability to pay. In order to ensure equitable access to water services for all NSW households, each service provider must provide consistent and equitable access to financial hardship schemes.

### ***Recommendation***

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*PIAC recommends that IPART look into bringing each of the four utilities' financial hardship arrangements in line with Sydney Water and Hunter Water to ensure equitable access to customer assistance for all NSW metropolitan households.*

## **5.2.2 Retirement villages and relocatable home parks**

PIAC strongly supports the NSW Government's current review of the rebate concession schemes for tenants and consumers who live in retirement villages and relocatable home parks.

Presently, most residents in retirement villages and relocatable home parks are not eligible for pensioner water rebates, as they are not registered as the account holders with the retailer. Residents in retirement villages typically hold their utility account privately with the village or park owner, and have charges levied by them. This inequity in access to pensioner rebates is an oversight in the policy structure, which has led to many low-income consumers being unable to obtain the assistance they require to ensure uninterrupted access to essential services.

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<sup>26</sup> Sydney Water Customer Council, *Payment Assistance Program Implementation Summary*, 20 July 2011, Sydney Water.

<sup>27</sup> Connell J., Hill W., (2009) *Cut Off II: The Experience of Utility Disconnections*, report prepared by Urbis for the Public Interest Advocacy Centre, Sydney, iii.

As acknowledged in the Review, many residents in retirement villages and relocatable home parks are retirees and/or concession cardholders,<sup>30</sup> and are often on low, fixed incomes.

PIAC is concerned by the Review's intention to defer considering making changes to price structures for retirement villages and relocatable home parks until 2016/17.<sup>31</sup> According to the Review, the NSW Government is currently reviewing the eligibility for pensioner rebates,<sup>32</sup> and PIAC hopes that this will result in amendments in the near future.

PIAC believes that waiting to consider price structure amendments for retirement villages and relocatable home parks until 2016/17 will result in a longer period of inequity for this already excluded group. PIAC recommends that IPART review the price structures for retirement villages and relocatable home park residents in line with the proposed scheduling of the NSW Government when it is announced.

### ***Recommendation***

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*PIAC recommends that IPART review the price structures for retirement villages and relocatable home park residents in line with the proposed scheduling of the NSW Government review.*

## **6. Conclusion**

PIAC would like to thank IPART again for the opportunity to comment on the Review. PIAC commends IPART for investigating solutions to possible inequities in the current service price structures for metropolitan water utilities in NSW.

PIAC welcomes taking action to address these inequities in cost structures, and offers in-principle support for the Review's pursuit of equity, as it is important for all NSW households have fair and equitable access to water as an essential service.

However, PIAC has concerns regarding the potential short-term impacts of these changes, particularly the increases in water service prices for some consumers. PIAC also has concerns regarding the inconsistencies in financial assistance programs available to customers serviced by different utilities. PIAC advocates for a more multi-faceted approach to equity for NSW water consumers that also addresses inconsistencies in access to financial assistances and other consumer protections.

PIAC urges IPART to take into account the short-term costs of increases in financial pressures and consumer protection when evaluating the benefits of the proposed changes to the charges levied under the current price structures. PIAC looks forward to participating in the remainder of this Review consultation phase, and discuss further the arrangements for the structural changes at the public roundtable hearing on 29 August 2011.

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<sup>30</sup> IPART, above n1, 14.

<sup>31</sup> Ibid.

<sup>32</sup> Ibid.