



## **Comment**

**on the**

## **ICRC Investigation into prices for water and wastewater services in the ACT.**

**August 2003**

### **BACKGROUND**

The ACT Council of Social Service Inc (ACTCOSS) is the peak representative body for not-for-profit community organisations, and disadvantaged and low-income citizens of the Territory. ACTCOSS is a member of the nationwide COSS network, made up of each of the state Councils and the national body the Australian Council of Social Service (ACOSS).

ACTCOSS has the twin roles of representation and advocacy. The Council's objectives are the representation of disadvantaged people, the promotion of equitable social policy, and the development of a professional, cohesive and effective community sector.

The membership of the Council includes the majority of community based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals. From that membership ACTCOSS has drawn together a Gambling Reference Group, which includes expertise in the areas of provision of services to people with gambling addiction and their families. It also includes representatives from academia and consumer groups with a direct interest in the issue.

The ACT Council of Social Service has three main representative responsibilities, including: representing the interests of consumers, the interests of community service providers and the sector, and the public/community interest in the Territory. It is with the interests of all three in mind that the Council provides the following comment on the ICRC Investigation into prices for water and wastewater services in the ACT

### **Background.**

Canberra is reviewing its water resource policies and pricing mechanisms at a time of considerable debate and change in national water policies. New South Wales has already moved to prevent the unfettered construction of dams on rural properties to prevent environmental river flows from falling due to decreased runoff and to protect river levels for downstream irrigators. In a future water trading environment, the ACT may face the prospect of having restricted access to sites for more dams, and may also have to comply with national rules on taking water from the environment.

There is pressure from rural settlements surrounding the ACT to provide a water service, similar to the arrangement the ACT has with Queanbeyan, to ensure a reliable source of potable water for the expansion of shire populations. At the same time, the combination of drought and fire has shown that simple reliance on nature to provide pure, clean water will not guarantee a reliable, unfettered future water supply as populations in the region expand.

In all this, ACTCOSS recognises the need to better use our precious water resources. However, there is an unfortunate corollary to many approaches to environmental issues which put price at the top of the list of factors to influence use. Many low and fixed income households cannot meet the resultant increased costs and are often also unable to change their water saving habits due to their housing situation. ACTCOSS and the Conservation Council of the SouthEast Region and Canberra have been working over the past 18 months on sustainability issues, taking a wider view. Our approach aims at providing wins for both the environment and for social welfare to ensure that access to core services does not exacerbate hardship or lead to environmentally damaging practices. Our aim is to seek reforms which will achieve:

- sustainable water use without causing hardship to disadvantaged people in the ACT community; and
- an equitable pathway to this goal.

ACTCOSS is therefore arguing that pricing factors need to be viewed holistically, and that ACTEWAGL should increase its assistance for households living with disadvantage by providing adequate concessions and rebates that recognise hardship in all its guises. The burden for increasing costs of providing water can then be better shared among the community by a multi-tiered pricing regime, coupled with better community education and support for water saving practices.

***The commission seeks comments from interested parties on its past decision to use a revenue cap to regulate ACTEW's maximum allowable revenues.***

ACTCOSS understands the arguments for the revenue cap as opposed to the idea of a price cap. The Council's main concern in this area is to ensure that prices remain stable and predictable to allow people on low incomes to budget for payment of water bills. Fluctuating prices, which could result from a combination revenue and price cap, may cause unnecessary hardship for people with restricted finances.

***For the regulatory period starting July 2004, the commission's preference is to roll forward the initial (1998) RAB from the current regulatory period, making allowances for:***

- *inflation*
- *prudent capital expenditure*
- *depreciation*
- *asset disposals.*

***The commission invites comments on its preferred approach.***

ACTCOSS does not offer comment on the approach taken, other than to say that the current under spending on capital works should not be rewarded with additional funds to undertake works that were supposed to be funded in the last regulatory period. ACTEW correctly predicted the series of events that could threaten the ACT's potable water supply in its submission to the 1999 price direction. As part of its risk management assessment, ACTEW did not follow through on its own plans to introduce additional filtration at an earlier point, though income was collected to meet these capital costs. The community should not have to pay twice.

***ACTCOSS will not be making comment at this stage on the depreciation of RAB, WACC issues, the return on working capital or the adjustment of revenue.***

***The commission is seeking views on the structure of the price of water.***

ACTCOSS believes that the costs associated with water use are under researched and need attention. While average consumption is stated as being 175 kilolitres per year non-discretionary, this very much depends on the infrastructure of the housing and the needs of the residents.

## Water and wastewater services in the ACT

The ICRC's paper states that price is an ineffective way of changing water use patterns for the majority of the population. ACTCOSS therefore rejects the idea that cost should be used to try and cause change in water saving behaviour. This can be better achieved by incentives and education.

However the Council does believe that excessive water use can and should be charged at a higher rate to ensure that the environmental costs associated with unfettered water use can be met. That is, if the expansion of the home swimming pool market leads to a more pressing need to develop new dam alternatives, that pricing factor needs to be reflected in the decision to own and operate a swimming pool. Or alternatively, if in future rural lessees get access to town water, any use of potable water for generating an income should be reflected in the pricing.

ACTCOSS therefore proposes that a third tier be added to the water pricing structure that would in effect be an excessive use charge. This third tier charge should cut in at usage above, for example, 500kl per annum for single households. Similar tiering in the commercial pricing of water for businesses may also be appropriate.

With the introduction of a third tier price, ACTCOSS does not believe there will be an urgent need for increased water prices at this time.

Any additional funds raised by this defacto environmental levy could then be used to support water conservation measures targeting people on low incomes and people living with disadvantage.

***The commission is seeking views on the appropriateness of using seasonal pricing.***

ACTCOSS reiterates its earlier point that changes in pricing make it difficult for people on low or fixed incomes to budget. ACTCOSS would like to see any move to fluctuating prices supported by an "easy payment scheme" where usage can be averaged over the year and payments spread evenly.

***The commission seeks views on the adoption of quarterly pricing.***

As this measure could only adversely affect low-end users, ACTCOSS is not in favour of the application of quarterly pricing.

***The commission seeks views on the introduction of pro rata billing.***

ACTCOSS believes that people in similar circumstances should pay similar amounts for services, and should not be disadvantaged by such an arbitrary measure as the dates for their water bills. While the Council does not profess to be fully aware of all the issues involved, we stick by the principle that charges should be equitable within the population.

***The commission seeks guidance on the pricing of unmetered properties.***

ACTCOSS finds this area difficult, as most of those who live in properties that are unmetered are in units and flats. It is unlikely that these people use excess water. One advantage of the assumed usage is that the water bill attached to the property will remain constant, and so is more easily budgeted for. Without the ability to meter these properties, ACTCOSS believes that the current methodology is sound. To change it would require further research which may be more expensive than any foregone revenue. Where properties are not metered, it can make it difficult to engage consumers on demand management strategies. If the water bill is paid by a body corporate, then some mechanisms might be able to be used to encourage the collective group to implement water saving strategies.

***The commission invites submissions on an alternative methodology to pricing access to the sewer system.***

The pricing for access to the sewer system is, and should remain, a fixed charge. Sewage treatment is a major public health initiative, particularly in an urban environment such as Canberra. The current pricing mechanism meets the public need for this service and should not be changed.

***The commission is seeking comment on trade waste pricing from interested parties.***

Disposal and treatment of trade waste is a vexed problem. Access needs to be relatively cheap to ensure proper use and disposal of hazardous wastes. However the costs of producing and disposing of waste are a legitimate cost of producing a good or service. ACTCOSS believes that education, regulation and enforcement are necessary to ensure that trade wastes are handled properly and that these costs should be in part borne by the general community for public health and environmental reasons, and partly by business

as a legitimate cost of business. Penalties for dumping or illegal disposal of trade wastes also need to be a disincentive for trying to avoid the legitimate costs of disposal.

***The commission seeks comments on the appropriateness of a splitting the regulatory control of water and wastewater services from the regulation of electricity services. Assuming that the regulation of these services is split, the commission is seeking comments on the appropriateness of a four-year regulatory control period for water and wastewater services.***

***The commission seeks comments from interested stakeholders on the types of events that might trigger the reset of the price direction.***

The regulatory control period for electricity does not need to be tied to that of water and wastewater, so the split is not seen as an issue by ACTCOSS.

The regulatory period for water and wastewater in the current environment is problematic. Australia may make progress on national water policies in the near future, which will affect the way that ACTEW and ACTEW AGL carry on their businesses. While a four year period provides some security and ability to plan, ACTCOSS supports the concept that the regulatory period can be shortened if national water policies impact on ACTEW and ACTEWAGL. Therefore ACTCOSS believes that the development of a national policy on water could be a reset mechanism.

The recent fires and drought may also be considered a reset mechanism, as could any catastrophic event affecting the water catchment. ACTCOSS does not see reduced water consumption due to the success of water saving measures as a trigger, even though it may affect revenues.

***The commission seeks comments from interested parties about the appropriateness of ACTEW publishing new prices on 1 July each year.***

The Council wishes to preface its comments on new prices with the caveat that discussion of the publication of prices does not necessarily mean that ACTCOSS agrees that prices should rise each year.

Having said that, ACTCOSS has more faith in the community, and believes that any publication of new prices should be made at least a month before they come into operation. Such a notice could serve

## Water and wastewater services in the ACT

as one of the mechanisms to remind people to watch their water consumption as well as alerting them to the fact that there will be a price rise (fall?) with effect from the first day of the new financial year. There are many price changes at this time of year, so advertising the change will be part of other information already being discussed in June.

***ACTCOSS does not wish to comment on the issues of cost attributions between ACTEW and ACTEWAGL, but congratulates the ICRC for ensuring that this important area of public accountability is scrutinised.***

***The commission seeks comments on the ways in which customer preferences and priorities can best be reflected in a service quality incentive mechanism.***

***The commission seeks views about appropriate measures of customer service performance.***

ACTCOSS does not believe that there should be any move to provide a price incentive for reliable service in the area of water and wastewater provision. Perhaps service quality improvements can be factored into the value of "X" in the formula for the adjustment of revenues. But ACTCOSS strongly urges the ICRC to avoid setting prices to reward neglect of low income households, or to allow ACTEWAGL to use ability to pay as a gauge of service delivery.

***The commission is seeking views on an appropriate approach to regulating miscellaneous charges.***

ACTCOSS is not in a position to comment authoritatively on miscellaneous charges, but believes that the price of such services should be well publicised, and that in the first instance, such charges should be appealable to the ICRC.

***The commission seeks comments on whether or not it is appropriate to use side constraints for water and wastewater network charges.***

ACTCOSS believes the inclusion of side constraints is another tool to assist households manage their water costs. ACTCOSS would be concerned, however, if side constraints were leading to maximised pricing to anticipate any fluctuations in revenue.

***The Commission seeks views as to what is an appropriate allocation of the risks between ACTEW and its customers. It is also seeking comments on the circumstances under which significant changes to ACTEW's operating environment should be passed through to customers.***

ACTEW appears to have managed these fluctuating costs in the past by rearrangement of its finances and deferment of projects. ACTCOSS believes that this follows commercial precedent, and given the possibility of triggers for price resets, it appears unnecessary to provide any further relief for ACTEWAGL on cost risks. Many groups within the community have had to bear such price hikes without the ability to attract additional revenue, and have been told that managing such risks is part of their core business.

***The commission seeks comments on the merits of an incentive carryover mechanism***

An incentive carryover mechanism appears to be a good move. However, ACTCOSS would be concerned if the cancelling or deferment of projects was allowed as a way to garner carryover funds. Perhaps the ICRC could apply a staggered carryover that went outside the regulatory period, for example allowing the company to carryover funds for two years at a time.

***The commission seeks views on the effectiveness of price as a demand management tool.***

***The commission seeks comments on demand management solutions as an alternative to costly network augmentation solutions and invites interested parties to participate in the development of demand management options.***

As stated previously, ACTCOSS does not believe that demand management can be achieved through pricing. Better education, support for retrofitting and containing water efficient appliances and schemes such as the water audits carried out in Queanbeyan would be far more effective.

ACTCOSS is engaged in the process of determining water usage policy, and will continue to work to ensure that low income households are not overlooked in the achievement of water efficiency.

There are considerable problems for people in rental properties, particularly in the private rental market already. The owner of the property is usually billed, and so while the debt for water usage can be charged (and we understand often is in the private rental

## Water and wastewater services in the ACT

market) a low income consumer in financial difficulties does not have access to the Essential Services Consumer Council. This means that if price is used and these costs become less affordable, there is a real need to address this issue.

***The Commission seeks views from interested parties on the willingness to pay of the community for performance higher than the standards set by Environment ACT***

This is a vexed question, as the environmental levy on water usage is nominally the water abstraction charge. ACTCOSS believes that there is a general unwillingness to pay extra for essential services, and that any such service must be an opt-in, not a compulsory levy.

***The commission is seeking comments from interested parties regarding the use and subsequent pricing of reused water.***

New discussion documents on the reuse of water have just been released and the community is expected to provide comments on the proposals. ACTCOSS believes that the reuse of treated effluent is to be encouraged, and as in past price direction submissions, ACTEW has committed itself to providing these services. ACTCOSS believes that such schemes need to be limited to high end users, such as playing fields, parks, public gardens, golf courses, and to provide damping down for roadworks or landfill sites. However, ACTCOSS is not fully aware of the public health implications of such measures, and would be loathe to recommend such infrastructure until these issues were fully debated.

Like all recycled products, the take-up rate will remain low while there is no financial incentive to switch to reused water. ACTCOSS believes such infrastructure projects should be part of any national water policy, and should provide federal funds to generate the necessary treatment and distribution networks.

## **CONCLUSION**

ACTCOSS believes that there is an urgent need for a literature review of water-related research into usage patterns, to be followed up by some locally-based research into Canberra water use. Only then can we really know what amount of water is necessary, for example, to support a family with children, older people, people with various medical conditions, or how best to spend funds allocated for such things as water audits and provision of water saving appliances.

There does not appear to be any research and development funding in the basic funding model, except in terms of engineering. Perhaps ACTEWAGL should be encouraged to apply for grants and research funds from the Federal Government to quantify real water demand in Canberra as part of the national water policy.

ACTCOSS remains concerned that the community service obligations and concessions rates that apply under ACTEWAGL's current pricing structure are not well publicised. The company's web site advises people who are having difficulties to contact ACTEWAGL or the ESCC. ACTCOSS believes that any pricing structure should be supported by a comprehensive statement on rebates, concessions and CSOs that allows people who may be eligible for discounts to obtain that information in the most effective way for them.

The Council would like to see the ICRC recommend to Government that the current level of CSOs and rebates be increased, as they are currently inadequate. This is particularly the case at a time when essential services are becoming more expensive.

ACTCOSS has also recently become concerned at the incidence of landlords passing water bills onto tenants. While this may be part of the tenancy arrangement and quite legitimate, it appears there is a problem when the landlord accumulates bills and then presents several at once to tenants. ACTCOSS will be taking this matter up with the ACT Government to see if changes can be made in the regulation of leases to ensure that people in rental accommodation are fully aware of the charges they face when they fall due. The problem with access to the ESCC mechanism for these groups also needs to be addressed.

Thank you for the opportunity to comment on the provision of water and wastewater services.