From: Ross Knee[redacted]
Sent: Friday, 24 June 2016 3:14 PM
To: ICRC <ICRC@act.gov.au>
Subject: Submission to Price Elasticity of water demand in the ACT

To: ICRC

Please find below my comments on Technical Paper 1 Price elasticity of water demand in the ACT, released in February 2016.

My comments below are based on over 30 years experience in the water industry, most of which was with ACTEW or it's subsidiary companies at an executive level.

I believe the analysis is fundamentally flawed. While it talks about the two pricing tiers, it does not appear to have analysed the price elasticity of each tier, separately. Tier 1 is intended for basic human water needs, so by definition, is very likely to be price inelastic. Tier 2 is intended for optional use like lawn watering, so is likely to be price elastic. By not analysing the tiers separately, it is giving an aggregated result, and hence is not representative of the real price elasticity of water across the range of uses.

In addition, to analyse the full period 2003-2015, is inappropriate because it is a non-stationary series. The analysis should have been done in two periods: 2003-2010 in which temporary water restrictions (TWR) were in place and 2010-2015 when only PWCM were in place. During TWR, demand was directly controlled by Government instruments, not by pricing (although the price of water was affected by TWR, reduced water sales resulting in increased prices, see below). Once the drought broke in 2010, people were once again able to use as much water as they liked, i.e. they were no longer stopped from watering lawns from the potable water supply. This latter period was the only period suitable for analysing price elasticity. Combining the periods dampens any effect from price sensitivity by consumers.

Comments on the paper's conclusions;

- increasing the price to achieve a 35% reduction in water use is one option, but the real issue is the need to be able to increase the price of water before introducing TWR, so that people have the option of maintaining or reducing their water costs prior to, and hopefully avoiding, the introduction of TWR. When TWR is imposed, water use is restricted and prices increase to offset reduced consumption. The latter situation needs to be avoided, as it sends exactly the wrong message to consumers - that is, it says to consumers - reduce consumption and the unit price increases!
- the above price rise should be on the second tier, which is the price elastic tier, not the <200kl tier.
- the conclusion that flats and units are less price elastic, than houses, which are less elastic than businesses, is logical because water users in flats and units have no gardens, so water use is for basic needs, and all non-essential costs for businesses tend to be elastic.
- PWCM and TWR are and were, for all water users, not just domestic users.

In the paper's Forward:

- why would price reductions even be considered for stimulating water demand? While that may be a pure economic option, it is not a realistic option for any water utility in the ACT. The TOC Act requires the utility to be environmentally sustainable.

The up to 3 month delay between water use and billing is also a challenge for consumers to show price elasticity for water.

These issues are fundamental and show the need for greater knowledge of the water business, before these analyses are scoped and then undertaken.

I am happy to discuss any aspects of my comments.

regards,

Ross Knee
[redacted]