

ESSENTIAL SERVICES CONSUMER COUNCIL

(established under Part 11 of the *Utilities Act 2000*)

RESPONSE

Water and Wastewater Discussion Paper 3

ICRC Report 8 of 2007

Background

The ESCC's interest in Water and Wastewater Pricing relates primarily to its effect on its client base – low income and disadvantaged utility customers who are having difficulty in paying their bills, and are in danger of losing an essential service as a result. In reality, water is rarely disconnected from domestic premises in the ACT, however the cost of water and wastewater services is reflected in our clients' overall expenses/debt circumstances. This is often transferred into difficulty in meeting payments for other essential services such as electricity and gas, or for food, medical, and clothing needs.

A significant majority of ESCC clients are people whose primary source of income is a government benefit of some kind eg age pension, DSP, parenting payment or other Centrelink payment. In the case of water debts, our clients are usually age pensioners or sole parents whose income is inadequate to meet maintenance deficits in their houses or mortgage repayments. Increasingly, water costs are now being passed on to tenants, however tenants are unable to access Council hardship assistance (in relation to water accounts) because the lessor is the water account holder.

In this Response, the ESCC considers water and wastewater pricing as a part of a wider discussion relating to the essential living costs of its client base.

In this regard, the ESCC notes that there has been a rise of about 17% in the cost of electricity, and about 15% in the cost of gas in the new financial year. In response to these rises, the ESCC has sought to increase the repayment levels of its clients to prevent them from falling further into arrears. It is notable that, whereas in the past clients generally understood the need to increase their repayments when prices increased, they are now often saying that they simply have no ability to increase their payment to the necessary extent. An examination of the clients' budgets often supports this contention.

In addition, new data from the Australian Bureau of Statistics indicates that the Living Cost Index for age pensioners (2.2%) and people on other types of government pensions or benefits (2.8%) exceeds the annual CPI (2.1%). While this is only the second time the Bureau has done this type of measurement, the ESCC's experience suggests such people's ability to meet essential living costs has been deteriorating for some years.

The ESCC, therefore, makes its comments on the pricing of water and wastewater in terms of the overall costs of essential services rather than of these prices alone.

The Need to extend Essential Service Rebates

The ESCC does not see the answer to the difficulties of pensioners and people on other types of government benefits lying in reducing the actual prices of essential services (including water and wastewater). This distorts the market signals given to consumers and generally provides greater subsidy to high income, high consumption families rather than the intended target group.

Rather, the ESCC see the answer in an appropriate IBT pricing structure (discussed below) and in an increase in Energy and Water Rebates which is an ACT Government Community Service Obligation. In particular, the ESCC would like to see the water/wastewater rebates linked to, and generally covering, the fixed charges for water/wastewater which often comprise more than half of water and wastewater bills. This would have the added benefit of removing the disincentive effect that the fixed charges have on saving water (and electricity and gas) at low usage rates.

Also, importantly, the water/wastewater rebate needs to be extended from pension card holders to include health care card holders and a way must be found to extend the CSO to benefit low income tenants.

The ESCC is aware that it is not within the ICRC's power to set Community Service Obligations or Rebate levels. However, within the ICRC's responsibility to have regard to the social impacts of an ICRC decision, it should be possible for the Commission to recommend specific increases in rebate levels to the Government, particularly as an alternative to attempting to deal with these impacts through pricing mechanisms.

Inclining Block Tariffs (IBTs)

The ESCC understands but does not agree with the argument for having a single price for all water used. This might be appropriate if there were no fixed charges and fixed costs were absorbed in the water price ie. in proportion to the usage of the system as a whole. However, the distorting effect of fixed charges on the unit cost of water at low usage rates (already mentioned) means that those people using little water are effectively paying significantly more per unit than those with higher usages. This is not only inequitable but also it discriminates against those generally conserving water for ecological reasons and/or because they are having difficulty in meeting payments. It therefore works against the interests of two groups of people whom the Government wishes to support.

The ESCC supports a low fixed charge component and a two step IBT, with the step set at a level that matches the average household usage for non-discretionary purposes such as drinking, bathing, washing, sewerage and interior cleaning. This level is variously estimated but is probably about 200kl per year. At an upper limit, the step should not exceed the average household usage of about 280kl per year. In any case, the ESCC would not support setting the step falling any lower than the present first step of 100kl per year.

The ESCC supports pricing parity between domestic and business customers in the ACT and certainly strongly opposes any suggestion of a lower price for large volume customers – this sends the wrong conservation message and contradicts equity objectives.

The Water Abstraction Charge (WAC)

The ESCC noted the comments made at the recent meeting with regard to the WAC. It observes that a WAC at a level of approximately 25 cents/kilolitre is sufficient to recover catchment management costs and that the new, higher level of the WAC (described in some part as a scarcity price) is a simple tax on industry and consumers, and, as such, is regressive in its effect. Similarly, the new network tax is regressive in effect.

The ESCC supports the reduction of the WAC to a level that meets the stated environmental purposes for which it was introduced. Also, it appears that ACTEW's consumers are paying for the upkeep of a catchment from which the majority of water flows to other consumers (downstream) who are not contributing equally to the catchment's upkeep.

The regressive effect of this flat tax on low income consumers should be addressed by wholly off-setting it within the water/wastewater rebate.

Once again, the ESCC recognises that the ICRC does not have any power in relation to setting the WAC. However, the inclusion of the WAC on the consumer's water bill has the appearance/effect of an additional 'price' for water. As such, it influences the consumer's use of water and is reflected back into the pricing for water itself. Consequently, the ESCC feels there is a case for the ICRC to make a recommendation to the Government to reduce the WAC or to offset it by a rebate increase for low income customers and consumers.

Peter Sutherland
Chairperson

11 September 2007