ESSENTIAL SERVICES CONSUMER COUNCIL

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

DRAFT REPORT INTO PRICES FOR WATER AND WASTEWATER

January 2004

The Essential Services Consumer Council (the Council) makes the following brief comments on the Draft Report into Prices for Water and Wastewater issued by the ICRC. These comments relate mainly to the "Tariff Structure and Billing" section of the Draft Report.

The first point the Council wishes to make is that Proposal B is very similar to the present tariff arrangement except that the variable component is increased slightly for the first 175 kl usage, and then a little more for consumption thereafter. In addition, the Council considers that Figures 9.1 and 9.4 of the Report should be combined to give a clearer indication of the effect of the Proposal changes.

The Actual Bills Received

It appears to the Council that the ICRC seems to have considered the water tariff and billing structure largely in isolation from the actual bills which customers receive. The Council suggests that the ICRC look closely at the actual bills which customers receive when considering the effect which changes to the various component parts of the total bill are likely to have on customer behaviour.

Water and sewerage charges come as one composite bill. An "average" quarterly bill (annual consumption of 280 kl) in 2003 would consist of:

o a water supply charge of about	$32
o a sewerage supply charge of about	$88
o the Water Abstraction Charge (70 kl)	$ 7
o a water consumption charge (70 kl)	$30
TOTAL	$157

It can be seen that the variable component of the bill amounts to $37, about 24% of the total bill. Because customers pay the bill as a whole, they see that three-quarters of the bill can not be altered by changing their water usage. Consequently there is little or no incentive to reduce usage, despite any reductions they might potentially make to the variable component of the bill by water conservation actions.

When the case of customers using about the non-discretionary amount (eg 2 X 57 kl per annum) is considered, the variable component of the quarterly bill is about $15 (only 11% of the total bill). Consequently, by eliminating all discretionary water usage (over half of the '"average" usage), a customer would manage to save only $22, or 14 % of the total bill.

For customers, the most significant portion of their bill is the fixed charges, and as long as that remains the case tinkering with the variable component will have little effect.

In support of this view, the Council refers the ICRC to an article by Crispin Hull on page B4 of the *Canberra Times* of 10 January 2004. The Council does not necessarily agree with everything Mr Hull had to say in that article, however he very clearly makes the point that customers consider their bill as a whole, and in that regard significant changes in consumption have little overall effect.

The ESCC therefore submits that the ICRC must reduce fixed charges to a minimum if it wishes to encourage customers to reduce their water usage through pricing signals.

This means that the ESCC would support tariff Proposal A over Proposal B. However, the Council considers that even Proposal A is inadequate in this regard.

Inequity for Small Usage Customers

Consideration of the average price schedule in Proposal A (figure 9.5 at p 161 of the Draft Report) indicates that, below a usage of 100kl pa, the average cost per unit consumed rises dramatically. For example, the average cost for a person consuming just the non-discretionary 57 Kl per annum would be about $2.00 per kl compared to the average cost of about $1.33 for the "average", 280 kl pa user. So, typically, a single aged person is likely to pay at least half as much again per unit for his/her water as an "average" family. This is clearly inequitable.

When the sewerage charge (presently $354 pa per customer) is added to the other water charges, the disparity between the total burden carried by the small usage (single) customer and the average (family) customer is made much worse.

The Council contends that the use of fixed charges for both the water "supply" and sewerage "supply" is inequitable and falls very heavily on low usage (often disadvantaged) customers.

Wastewater Charges

This Submission has already mentioned the distorting effect that the fixed sewerage "supply" charge has on the signals being sent to consumers concerning water usage as a whole.

The Draft Report seems to concentrate on the cross-subsidisation that it contends occurs between residential and non-residential wastewater charges. The Council notes that there is no quantitative data in the Report, either from ACTEW or the ICRC, to support this contention. The Report simply "notes that a fixtures-based approach is adopted by very few Australian water businesses and most such businesses have moved away from this approach to charging for wastewater services".

The Council suggests that the use of a fixed sewerage supply charge across the board is grossly inequitable in that it takes no account of the actual contribution of the customer to the amount of wastewater which must be treated. The single pensioner is charged the same amount as the "average" family even though that single person in most cases will use much less of the service.

The Council also suggests that a more equitable solution would be to link the wastewater charge to the water usage. Clearly, this would disadvantage those consumers who used water for purposes (such as gardens) that did not result in the water requiring follow-on treatment. However, this would seem to be in line with the Government's intention to reduce usage of water for discretionary purposes (whether by residential or non-residential consumers).

ACTEW's suggestion (at p 147) that there be a "10 per cent increase in residential charges" and that "non-residential tariffs be restructured to include either replacement of the fixtures charge with a discharge volumetric charge, or retention of the fixtures-based approach with some form of category-based charge" seems to suggest an increasingly fragmented charging system which has no evident basis in quantitative data, nor any unifying rationale.

In view of the significance of wastewater charges on the overall behaviour of residential consumers, and the overall inequity of the water/wastewater system as a whole, the Council would want to see a much more detailed (and independent) analysis undertaken, including the effect of linkage to water usage, before any changes to wastewater charges are made.

Fixed "Supply" Charges

In addition to the point already made about the distorting effect fixed "supply" charges have on consumer behaviour, the Council wishes to make two other points about such charges.

The first point is that there does not appear to be any clear connection between the charge and the "supply". There does not appear to be any description as to what the "supply" charge is supposed to cover. Therefore it is impossible to make any comment on the appropriateness of the charge in relation to actual "supply" of the service. The "supply" charge seems to be an historical carry over from when it was meant to cover everything except excess water usage.

In fact, the underlying impression gained from the Report is that the "supply" charge is now simply an arbitrary fixed component of an overall charging arrangement and it can be manipulated at will to achieve various outcomes. If this is the case, then it amounts at least to a misnomer, and at the extreme could be seen as "misleading and deceptive". As an aside, the Council would make a similar comment regarding gas and electricity "supply" charges.

The Council wishes to see the term "supply charge" changed to reflect what the charge really is, a "fixed" charge.

The second point (which follows on the previous point) is that the use of a fixed "supply" charge introduces a conflict into the logic behind the tariff arrangements. This is clearly shown in the final paragraph of the conclusion to section 12 on p 200. This indicates that the fixed component of the tariff arrangement is there to ensure that "if the volume of water sold by ACTEW declines as a result of demand management activities, ACTEW is still able to recover its costs, the major part of which is fixed. Thus ACTEW will not be financially disadvantaged by implementing demand management measures."

The ICRC appears to be trying to encourage consumers to reduce their usage by a financial incentive while at the same time ensuring that ACTEW is protected from the financial consequences of reduced usage. The ICRC seems to be trying to have it both ways, but in reality the use of a fixed charge tips the balance in favour of protecting ACTEW. As well, the greater the fixed charge, the greater the protection for ACTEW and the less the incentive for consumers to reduce their water usage.

This is illustrated by a comparison of the total water bills under the present arrangement and the two Proposals. A common point for all three lies at about 175 kl consumption. As previously noted, ACTEW revenue under Proposal B would always be greater than under the present arrangement, so Proposal B provides even greater protection for ACTEW than at present. With Proposal A, an average customer's consumption would have to drop below 175 kl per annum for there to be any possibility of financial disadvantage over the present arrangement. Because the average non-discretionary usage per residential customer (as opposed to consumer) is about 175 kl per annum, and the present "average" residential customer usage is about 280 kl per annum, the likelihood of that occurring should be very small. ACTEW seems to be more than adequately protected from financial disadvantage, even under Proposal A.

The ESCC believes there is a capacity for the fixed "supply" charge to be reduced below that applying in Proposal B while still providing ACTEW with reasonable protection from financial disadvantage.

Concessions

At present, pensioners receive a concession on their water and sewerage bill through the application of an ACT Government CSO paid to ACTEW. The concession is an amount of $77.87 per quarter and is calculated on the basis of 65% of the Water Supply Charge and Sewerage Supply Charge. If the quantum of the two "supply" charges is changed, Council notes that the basis of calculation of the pensioner concession must be changed to ensure no disadvantage to pensioners.

The Council also points to the significant inequity of the concession applying only to pensioners and not to other low income customers (who can conveniently and accurately be identified by possession of a Health Care Card). At present, the electricity concession applies to both pensioners and Health Care Card holders, and Council considers that there no reasonable basis for the different treatment of CSOs in respect of water and sewerage charges.

Council notes that the cost of extending concessions to Health Care Card holders could be significantly offset by removing the CSO applied to water and sewerage charges for educational and religious institutions. The concession for educational institutions is completely untargeted and, in fact, is likely to be of proportionately greater benefit to wealthy educational institutions which maintain extensive grounds.

Summary

In summary, while the Council prefers Option A to Option B, it contends that the continuation of fixed "supply" charges;

- serve as a disincentive to reducing water usage;
- are inequitable for low usage customers (mainly the disadvantaged), and
- overly protect ACTEW from financial disadvantage.

In addition, the Council suggests that:

- the term "supply" charge cease to be used in billing, and
- a detailed and independent analysis of wastewater use be undertaken before any changes are made to wastewater charges, and
- the concession structure be rearranged to ensure no disadvantage to pensioner customers and the concession be extended to health care card holders.

Overall, the Council feels that the tariff structure outlined in the Report does not adequately demonstrate that the ICRC took into account the requirements to:

- "examine the impacts of price changes on consumers and demand, including on disadvantaged consumers, low income earners and large households, and the adequacy of concessions for services:; and,
- "the social and environmental impacts of the decision".

Prepared by Bill Pearcy and Peter Sutherland
Essential Service Consumers Council