



15 November 2017

Water Team  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne VIC 3000

Dear Sir/Madam

### **Initial Feedback: 2018 Water Price Review**

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to provide initial feedback on Victoria's water corporations' pricing submissions currently under review by the Essential Services Commission (**ESC**). We stress that this early feedback does not provide a detailed assessment of pricing submissions, but instead seeks to provide a high-level overview of what we have observed so far.

We are concerned that the price plans of some water companies seem to have little regard for some of the matters set out in the Water Industry Regulatory Order 2014 (**WIRO**). Steep price rises especially in the first year of the regulatory period (which coincides with the end of the four-year government rebate) will have sharply negative impacts on low-income and vulnerable consumers. Low-income households spend a greater proportion of their income on utilities than other household types. These price shocks are likely to cause significant financial stress to these customers.

We would urge the ESC to remain particularly mindful of low-income and disadvantaged consumers when assessing price outcomes.

Consumer Action strongly supports effective community engagement. We note that this is first the pricing review under the new PREMO framework and we expect to see water companies adjust to the new model over time. In that context, we are broadly pleased with the degree and intent of consumer consultation undertaken by many of the water companies—noting that the submissions do exhibit a degree of variance in this area.

Much of the water companies' customer engagement that Consumer Action has analysed or been briefed on appears genuine, meeting many of the best practice elements of effective engagement. We are more critical of engagement that is not transparent, where it appears

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customers were not empowered, and where certain issues or questions have been framed in misleading ways.

We would encourage all corporations to learn from each other's approaches to inform their own engagement in the future.

Our further comments are outlined below.

## **About Consumer Action**

Consumer Action Law Centre is an independent, not-for-profit consumer organisation based in Melbourne. We work to advance fairness in consumer markets, particularly for disadvantaged and vulnerable consumers, through financial counselling, legal advice and representation, and policy work and campaigns. Delivering assistance services to Victorian consumers, we have a national reach through our deep expertise in consumer law and policy and direct knowledge of the consumer experience of modern markets.

## **Opening remarks**

Access to water is a basic human right.<sup>1</sup> The belief that all Victorians are entitled to a supply of water necessary for an adequate standard of living is a view widely shared by the community.<sup>2</sup> Fundamental to this is that water services remain affordable for everyone, including low income and vulnerable consumers. It is therefore of great concern that residential water bills in Victoria are at an all-time high. We are deeply concerned about the impacts that high and, in some cases, increasing water prices are having on low income and vulnerable members of the community.

The human impact of these prices should not be ignored, or under-stated. A report by VCOSS and RMIT University released in August this year interviewed a single mum, Odette, who is forced to bathe her children on alternate days because "it's just so expensive".<sup>3</sup> There are also fixed-income consumers that shower outside of the home or go to great lengths to carefully manage their water consumption and budgets yet still struggle to afford their water bills when they arrive.<sup>4</sup>

These are customers that we urge the ESC to keep in mind when assessing the pricing submissions put forward by Victorian water companies.

## **Pricing**

Household water bills have climbed steeply in recent years. Customers in metropolitan Melbourne saw their household bills increase by an average of 83% over the period 2007-08

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<sup>1</sup> There have been many formal United Nations declarations over the years on the right to water, most recently in 2010 when the UN General Assembly recognised the human right to water and sanitation: Resolution A/RES/64/292. United Nations General Assembly, July 2010.

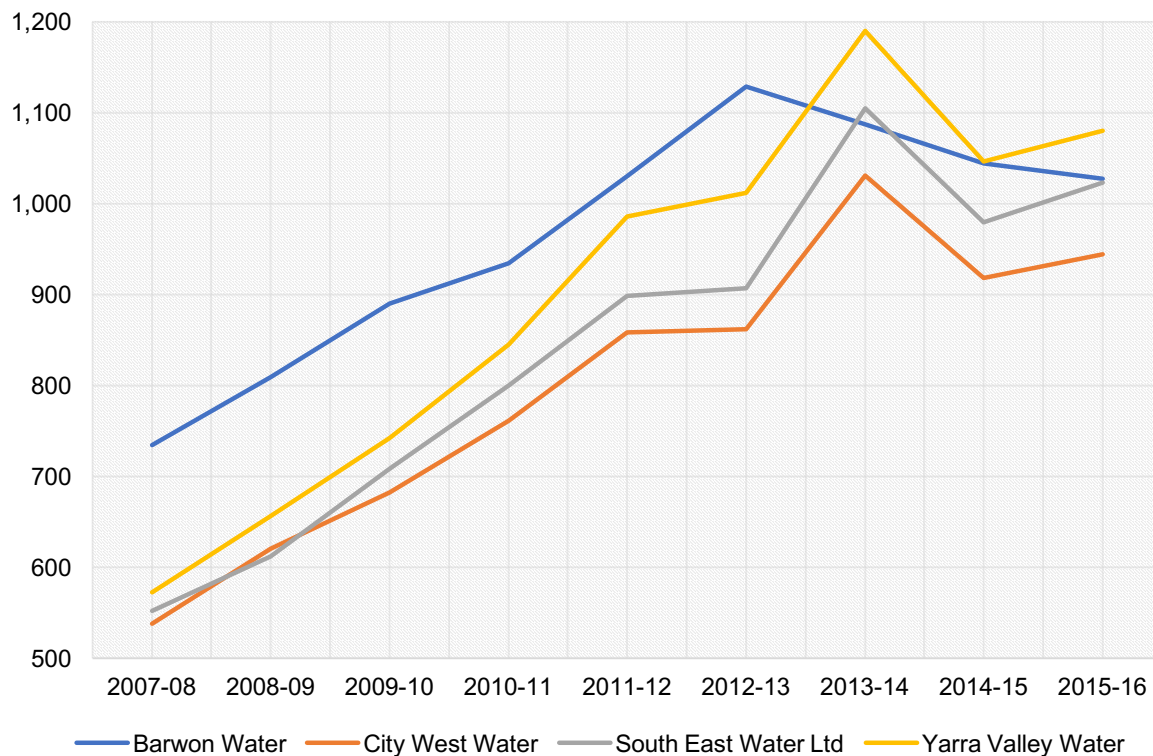
<sup>2</sup> Jo Benvenuti, *Voice of the consumer – an Urban Water Assessment Report*, 2010, pg 3.

<sup>3</sup> VCOSS, *Power Struggles*, available at: <http://vcoss.org.au/documents/2017/08/POWER-STRUGGLES-2017.pdf>.

<sup>4</sup> Ibid.

to 2015-16.<sup>5</sup> This is shown in figure 1 below which also charts the price rises experienced by Barwon Water customers.

**Figure 1: Typical Residential Bill (water & sewerage) (\$) for Victorian utilities 100k+ customers**



Regional customers' bills also jumped:

- the average Coliban Water customers' bill increased a staggering 100% from 2007-08 to 2015-16,
- an increase in the range of 55-57% for Gippsland Water and GWM Water customers, and
- Central Highlands Water, Goulburn Valley Water, East Gippsland Water and Lower Murray Water customers experienced price rises in the range of 40-50%.

Reasons behind these steep price rises include the construction of the desalination plant at Wonthaggi where costs were subsequently passed on to consumers and other augmentation decisions to ensure water security during the millennium drought.

Needless to say, these increases are dramatic, well above CPI and not matched by a comparable increased cap on the State Government's Utility Relief Grant scheme (**URGS**) or the water and sewerage concessions. Our experience shows that financial pressures are hitting many Victorians, especially low-income customers who are finding it increasingly difficult to

<sup>5</sup> Bureau of Meteorology, National performance report 2015-16: urban water utilities. Typical Residential Bill (water & sewerage) based on average residential annual water supplied. Average of City West Water, South East Water and Yarra Valley Water. Dataset available at: <http://www.bom.gov.au/water/npr/docs/2015-16/complete-dataset.xlsx>.

make ends meet.<sup>6</sup> We suggest the Commission make a recommendation to the State Government to review these caps as part of the 2018 water price review.

When reviewing the price plans of the major metro providers—City West Water (**CWW**), Yarra Valley Water (**YVW**) and South East Water (**SEW**)—we are pleased to see slightly decreasing or stable price plans (accounting for CPI) for most customers. However, we are conscious that Melbourne’s water bills are at an all-time high and many people are struggling to keep up with utility costs. We hope to see continued downward pressure on customers’ bills in this and future pricing periods.

Under the WIRO, the ESC is legally obligated to have regard to a number of matters, including:

- taking into account the interests of customers of the water companies including low income and vulnerable consumers;<sup>7</sup>
- avoiding price shocks where possible;<sup>8</sup>
- enabling customers of the water companies to easily understand the prices being charged for the services they receive;<sup>9</sup>
- providing signals about the efficient costs of providing the services.<sup>10</sup>

These issues are particularly pertinent in light of the cessation of the *Fairer Water Bills* water rebate, implemented four years ago when water corporations in Victoria were instructed by the state government to find efficiencies in their businesses and pass these cost savings on to customers.

The end of the rebate in 2018 means that water companies will have to accommodate this adjustment in their pricing plans for the next regulatory period. We are concerned about the impact the end of the rebate will have on some customers’ bills, depending on their retailer.

In *Water for Victoria*, the Department of Environment, Land, Water and Planning (**DELWP**) anticipates that bills will remain steady:

*The government expects bills to remain stable in the coming years. The efficiencies underpinning the current government water rebate and reductions in water corporation debt will be the starting point for setting prices for July 2018 onwards.*<sup>11</sup>

We understand this to mean that the rebate would be converted into permanent lower prices for customers reflecting the efficiencies and savings achieved by corporations over the last four years. We encourage the ESC to closely scrutinise pricing plans where it appears corporations are not passing on efficiencies underpinning the rebate or may have misinterpreted the intention behind the introduction of the rebate.

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<sup>6</sup> ABC News, Where does your money go? Spending survey shows cost of essential living a burden, 13 September 2017, <http://www.abc.net.au/news/2017-09-13/household-expenditure-survey-cost-of-living-burden/8939984>

<sup>7</sup> WIRO 2014 11(d)(iii)

<sup>8</sup> Ibid.

<sup>9</sup> WIRO 2014 11(d)(i)

<sup>10</sup> WIRO 2014 11(d)(ii)

<sup>11</sup> State of Victoria, *Water for Victoria*, available at: <https://www.water.vic.gov.au/water-for-victoria>, pg 163.

The end of the government rebate was planned for some time and this should have formed a central part of the planning for each corporations' price submissions.

To that end, we note that some corporations such as Barwon Water have implemented measures to protect against customers' experiencing price shocks when the rebate ends.<sup>12</sup> Socially responsible actions such as this will protect many customers in the Barwon region from experiencing bill shock and help them better manage their expenses.

Wannon Water customers on the other hand will experience steep price jumps of \$70 plus inflation for residential owner occupiers under the proposed price plans due to the end of the rebate.<sup>13</sup> Tenant customers will be hit with a \$35 increase in 2018-19 and again in 2019-20. Westernport Water bills will also jump when the rebate ends. As mentioned above, we understand that efficiencies underpinning the rebates would have meant permanently lower prices for customers and question the price paths proposed by Wannon and Westernport.

We are aware that South Gippsland Water tenant customers received no benefit under the government rebate and we expect the ESC to take this into account when scrutinising their proposed price increases.<sup>14</sup>

Central Highlands Water tenancy customers also received no benefit under the rebate whereas customers (including businesses) paying the water service charge received a \$200 reduction over the four years and will continue to receive this benefit into the next regulatory period. On top of this, we are concerned that tenant bills will increase slightly more than other residential and non-residential customers who will see a slower price rise due to the slight reduction in sewer service charges over the 2018-23 period.

We expect the ESC to closely scrutinise water companies that anticipate steep customer price jumps—for tenants and owner-occupiers—due to the end of the rebate, or any other factor.

### **Tariffs and Inclining Block Tariffs (IBTs)**

Most corporations undertook some degree of engagement over their tariff structures during the development of the pricing plans. When customers were consulted on tariff structures, outcomes were varied. For example, YVW have proposed to retain the three-step tariff citing water conservation incentives associated with it whereas CWW and SEW have moved from three-step to two-step citing fairness to larger households. Interestingly, YVW have proposed a measure to adjust the volumetric rate for large households having difficulty paying their bill. We wonder how this might be communicated to customers and implemented.

IBT and tariff structures are complex, require a sophisticated level of technical understanding and often lead to confusion amongst users evidenced by very mixed responses to IBT-related

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<sup>12</sup> Barwon Water have proposed to implement a transitional rebate for tenancy customers to mitigate against price shocks when the government rebate ends, see Barwon Water 2018 Price Submission, pg 107-108.

<sup>13</sup> Wannon Water price submission, pg 75.

<sup>14</sup> South Gippsland Water applied the government rebate via a reduction to fixed charges. This benefitted all customers who paid these costs including business customers.

questions in some price submissions.<sup>15</sup> They also necessitate trade-offs or compromises—between cost recovery, efficiency, social or equity grounds and simplicity.

Prof. Dale Whittington, an expert in municipal water tariff design, argues IBTs are ineffective on social equity grounds. Because they are based on actual usage, they fail to account for household size and essential versus discretionary use. Thus, they penalise large households using water efficiently. We also made the point in a previous price review submission that Aboriginal households have a higher number of occupants on average than non-Aboriginal households. This, together with their cultural practice of hosting extended relatives for long periods of time, means that customers in such circumstances have limited capacity to reduce consumption in response to price signals.<sup>16</sup>

Many corporations have proposed to shift tariff structures in the 2018-23 period, putting more weight on the variable component of bills and lowering fixed charges. It appears many customers support this approach but we urge caution as these sorts of changes will detrimentally impact certain customers—tenants in particular. Tenants' capacity to respond to price signals are limited and are severely constrained when making cost-saving alterations to their homes such as installing water tanks or replacing inefficient appliances. These considerations appear to have been overlooked in many submissions and we hope the ESC will carefully consider the price impacts on this group of customers and recommend measures to assist tenants.

We feel that the ESC has a role to encourage research in the IBT and tariff space to ensure evidenced based outcomes that do not detrimentally affect certain customer groups.

## **Engagement**

Customer engagement takes many different forms and there are factors that distinguish effective engagement from poor. Effective engagement is meaningful and genuine.<sup>17</sup> Poor engagement, by contrast, is often tokenistic or undertaken where outcomes are predetermined.

Effective engagement must also be transparent—the company undertaking the engagement must be open about its views and welcome challenging or conflicting ideas. Effective engagement empowers the consumer by breaking down complex information and avoiding jargon to encourage informed participation.

Companies that went out of their way to genuinely involve communities and undertake culturally specific engagement such as with CALD groups, newly arrived migrants and Aboriginal communities should be commended.

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<sup>15</sup> For example: "When customers were asked to what extent do you agree or disagree with the statement that "Water prices should be higher after you used a certain amount", 39% of customers either strongly agreed or agreed with the statement, 32% either slightly agreed or were indifferent and only 29% disagreed." YVW submission, pg 125. Also: "About a third of customers felt the three tier water tariff structure was fair with almost half our customers being neutral to this tariff structure." City West Water Engagement Report, pg 14.

<sup>16</sup> Consumer Utilities Advocacy Centre, *Wein, Paen, Ya Ang Gim, Victorian Aboriginal experiences of Energy and Water* (December 2011).

<sup>17</sup> Consumer Utilities Advocacy Centre, *Meaningful & Genuine Engagement: Perspectives from consumer advocates*, November 2013, pg 3.

Engagement that involved and/or was driven by boards and high-level management shines through when reading submissions: links between different parts of these submissions are strong. Additionally, these engagement processes are often perceived by participants to be more meaningful and genuine.<sup>18</sup>

Engagement (like competition) is not merely a means to an end. Rather, customer engagement should benefit customers. It should be utilised to inform and develop pricing submissions alongside other sources and evidence, and when it is not this tends to stand out.

For example, South Gippsland Water's justification for a steep price jump in the first year of the regulatory period (increasing \$70 for tenants, \$109 for residential customers<sup>19</sup>) as being supported by their Customer Advisory Panel is problematic. This approach is likely to produce bill shock for many customers and result in more customers experiencing hardship. A growing body of evidence shows individuals are making tough sacrifices to keep up with their utility bills. The VCOSS report mentioned earlier highlights the everyday sacrifices people are making to keep their bills paid.<sup>20</sup>

External evidence, including from consumer advocates and community organisations, should inform water corporations in the development of their price plans. Similarly, consultation that touches on hardship measures, and low-income and vulnerable consumers should be undertaken with evidence informing outcomes.

We note that many water companies recruited engagement consultancy companies to undertake all or some of the customer engagement. Our initial impression is mixed: it appears to have worked well in many cases, but in others there is an evident disconnect between the customer engagement undertaken by external providers and benefit derived by the water company from that work. This then flows through to the pricing submission. While some submissions read coherently—intertwining risk, outcomes, pricing, engagement and management—so those elements speak to one another, others do not. We do not want to discourage companies from improving and embedding great customer engagement in their day to day operations (as there are clear advantages from doing so) we do need to raise these points to encourage future improvement. However, water companies should be alive to the risk that consultants merely produce a product that fits within pre-determined boundaries, rather than taking an inquiring and open approach.

We have not yet had the chance to compare and contrast each of the engagement strategies used by water corporations, so are not in the position of making firm judgments. In its Draft Decision, we urge the Commission to take steps to compare approaches undertaken in an effort to identify good practice as to where customer engagement actually benefits customers.

## **Hardship**

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<sup>18</sup> Ibid.

<sup>19</sup> Based on consumption of 160kL pa.

<sup>20</sup> VCOSS, *Power Struggles*, available at: <http://vcoss.org.au/documents/2017/08/POWER-STRUGGLES-2017.pdf>.

We are very pleased to see a greater awareness of customer hardship and vulnerability reflected in the 2018 pricing submissions and strongly encourage companies to improve and strengthen their existing programs.

In the last pricing period, metropolitan corporations were allocated \$5.25 million to better support customers experiencing hardship. Consumer Action supported this measure and have been broadly impressed with the hardship measures implemented over the period. Implementing robust hardship systems and programs is not only the right thing to do, it also makes good business sense. In their submission, YVW note:

*By increasing the education and support, more people will be aware of the options available to them so that they can pay their bills. The more people that are able to pay their bills, means less money spent on cost recovery activities. Educating customers on the options available will also reduce the level of bad debt that is written off and therefore never collected.<sup>21</sup>*

YVW has emerged as a leader in this area, particularly through the Thriving Communities Partnership, and we encourage other water businesses to leverage this expertise to improve their own practices and procedures.

Regional corporations face specific challenges in this area including difficulty training up staff, finding and retaining staff skilled in hardship-related work and other issues associated with a small customer base (for example someone having trouble paying their bill may be wary of calling their retailer because they may know the individual that answers their call). We have anecdotal evidence that some providers do not always follow their hardship procedures.

We strongly encourage the ESC to allocate specific funds to allow regional corporations to expand existing hardship programs or adopt new practices to assist their vulnerable customers, including those experiencing family violence.

## **Outcomes**

We have not had the opportunity to compare and contrast in detail the various outcomes, service standards and guaranteed service levels proposed by water businesses. In general, we note that customers of a basic utility such as a water company should receive the same level of service no matter where they live. However, we support the incentive-based regulatory framework that encourages businesses to improve service standards over time. This aligns with our comments above about the efficiencies gained following the *Fairer Water Bills* initiative.

We do recognise that price is a function of these outcomes and service standards, and that customer engagement should inform the measurable deliverables and targets proposed. To be meaningful to customers, we consider that customers should be compensated where the business does not meet performance targets, as is proposed by various businesses. These mechanisms should be directly linked to the failure to achieve particular benchmarks and be

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<sup>21</sup> Pg 26.



directed to affected customers. We will examine these issues more closely in our response to the Commission's Draft Decision.

Please contact Patrick Sloyan, Policy Officer (Water) on 03 9670 5088 or at [water@consumeraction.org.au](mailto:water@consumeraction.org.au) if you have any questions about this submission.

Yours sincerely

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