



15 January 2018

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

Dear Sir/Madam

Feedback: Western Water 2018 Price Review

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to provide feedback on the Essential Services Commission's (**ESC**) draft guidance and consultation paper for Western Water.

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.

General comments on Western Water and the 2018 Water Price Review

Consumer Action was concerned when Western Water failed to submit a price submission to the ESC in September 2017. Pricing regulation of essential services is critical to ensure that water service provision is in the best interests of consumers. The alignment of pricing reviews for all 17 Victorian water businesses under a guidance paper that applies to all corporations gives the public confidence that regulatory decisions are consistent, objective and impartial.

The price review process also provides the opportunity for all Victorian water companies to be transparent and open to scrutiny not only by the ESC, but water customers, media and other interested parties such as consumer advocacy groups like ours. We believe this scrutiny and the ability to simultaneously compare price submissions from all water businesses vital to ensure water businesses are delivering services the community expects, and promote the interests of consumers including low income and vulnerable customers. It becomes more

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difficult for scrutiny to occur when regulation for water corporations occurs over different time periods and under different guidance papers.

Price reviews necessarily demand significant resources for each corporation. Expenditure in developing a sound water price submission is part of the cost of doing business and these costs are inevitably passed on to customers through bills. We are concerned that in submitting a price plan for only 2 years followed by another due in 2020 will add additional operational costs to Western Water and consequently their customers.

However, we also note the unique circumstances facing the region that Western Water serves, including a growing population, and the desire of Western Water to ensure services are affordable and fair.¹ Ensuring services promote the long-term interests of consumers, including maintaining affordable bills, is paramount. In this light, we are satisfied Western Water opted for a shorter price determination period rather than increase prices to levels that would cause significant detriment to the communities they serve.

In correspondence to the ESC, Western Water highlighted the “deep and thorough engagement” it has undertaken with customers and stakeholders. We look forward to analysing the engagement undertaken by Western Water in their submission to discover what their customers value and the outcomes that prompted Western Water to request a shorter regulatory period.

Demand management

To tackle the strong growth currently occurring to the west of Melbourne, we encourage Western Water to include a comprehensive demand management program in their price submission to the ESC. This could include expanding Western Water’s current conservation programs to change customers’ water use behaviour and developing new initiatives. New schemes could include showerhead exchanges, and promoting water saving products such as dual flush toilets and water tanks. Western Water could also consider making ‘Class A’ recycled water lower than the cost of the ‘Block 1’ rate to encourage uptake of this option (where it is available) as these are currently priced at the same rate. Mitigating water loss across the region should also be prioritised. Promoting efficient use of services aligns with clause 8(b)(i) of the WIRO. Managing demand would likely benefit Western Water in 2020 when they will be required to submit a subsequent pricing plan.

City West Water’s price submission highlights areas where they are collaborating with Western Water – particularly in growth zones. Collaboration between neighbouring water corporations to achieve substantial cost benefits not only makes good business sense but is also in the interests of customers. We encourage this where it results in benefits to consumers.

Prices and tariff structures

Western Water indicated to the ESC its preference for prices to continue at current levels plus an allowance for CPI while their board assesses the state of the business moving forward. This

¹ See Western Water’s letter to the ESC dated 20 October 2017, available at: <https://www.esc.vic.gov.au/document/water/55707-letter-western-water-price-submission/>

was supported by customer engagement that they valued affordable and equitable bills. Avoiding price shocks and into taking account the interests of customers—including those that are vulnerable or on low incomes—is vital and ensures everyone has access to affordable water.

Since 2014, Western Water, along with the majority of Victorian water corporations, has passed on a government rebate to its customers by way of a \$100 reduction to those that are billed a water usage component. The Department of Environment, Land, Water and Planning (**DELWP**) anticipates that bills will remain stable and the efficiencies underpinning the rebate will be carried forward into the next regulatory period.² We assume that Western Water will embrace this in their price plan.

We note that the ESC has suggested Western Water keep current tariff structures in place for the 2018-2020 period.³ Most corporations undertook engagement with their customers on tariff design in the lead up to this price review. Western Water should detail the outcomes of this consultation in their submission. In our initial feedback to the ESC we highlighted the complexity and trade-offs involved in various tariff structures.⁴ We support structures that are most equitable. Inclining block tariffs (**IBT**) in particular fail to account for household size and essential versus discretionary use. We encourage Western Water to explore alternatives to their current IBT design so that large families and other customer groups are not paying more for essential water usage.

Overall, we are pleased that the ESC has requested Western Water to submit a proposal under this new guidance. Water corporations are aware of the timing of water price reviews and should be expected to participate as it is in the public interest for them to do so. We look forward to the release of the final guidance and Western Water's submission.

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

Yours sincerely

CONSUMER ACTION LAW CENTRE



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² State of Victoria, *Water for Victoria*, available at: <https://www.water.vic.gov.au/water-for-victoria>, pg 163.

³ Essential Services Commission, *Draft guidance – Western Water's 2018 water price review*, pg 30.

⁴ Available at: <https://policy.consumeraction.org.au/2017/11/20/initial-feedback-essential-services-commission-2018-water-price-review/>