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Water Price Review
Essential Services Commission
2/35 Spring Street
Melbourne VIC 3000

Metropolitan Melbourne Water Price Review 2008-09 – Draft Decision

This submission is put forward by the Consumer Utilities Advocacy Centre Ltd (CUAC) and the Consumer Action Law Centre (Consumer Action) in response to the Draft Decision released by the Victorian Essential Services Commission (the Commission) on the Metropolitan Melbourne Water Price Review 2008-09 (the Review).

CUAC is an independent consumer advocacy organisation which ensures the interests of Victorian electricity, gas and water consumers - especially low-income, disadvantaged, rural and regional and Indigenous consumers - are effectively represented in the policy and regulatory debate.

Consumer Action is an independent, not-for-profit, campaign-focused casework and policy organisation. Consumer Action provides free legal advice and representation to vulnerable and disadvantaged consumers across Victoria, and is the largest specialist consumer legal practice in Australia. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly.

We are pleased that the Commission has considered and made efforts to address a number of the issues put forward in our submission on the *Water Plans - Issues Paper*. We support the proposed \$433 million reduction in the water businesses' revenue requirements and trust that the final decision of the Commission will ensure that the costs passed on to customers are fair and reasonable, accompanied by improved measures to manage customer impacts that will flow from reduced affordability.

Delay of capital expenditure

We support the delay of capital expenditure and the assessment that businesses will not be able to deliver the extent of capital expenditure programs proposed¹.

¹Essential Services Commission 2009, *Metropolitan Melbourne Water Price Review 2008-09—Draft Decision*, Vol. 1, April, p. 4

Proposed GSLs

We support the proposal to increase GSL payment levels.

We agree with the introduction of a GSL payment to be made for restricting the water supply of, or taking legal action against, a customer in hardship who is complying with an agreed payment plan. In addition however, we believe it is important that the application of the GSL payment be extended to include situations in which a customer that would be eligible to participate in a hardship program, but has failed to be identified and offered hardship assistance by a water retailer, and has had their water supply restricted or been subject to legal action. Otherwise, the incentive to manage the customer impacts of rising bills intended by introducing the GSL is blunted by the retailers' ability to avoid the GSL payment through their own decisions and actions, without independent scrutiny of whether they had offered appropriate hardship assistance to begin with.

We understand that it is difficult to design an objective measure to identify cases in which a customer *should have* been offered hardship assistance. While it would not uncover all such cases, we suggest that customers could be identified in a measurable way through the Energy and Water Ombudsman Victoria (EWOV). That is, a GSL payment could be triggered where a customer subject to supply restriction or legal action has contacted EWOV and EWOV has found that the customer should have been offered hardship assistance. EWOV already plays a similar role in relation to the electricity wrongful disconnection payment, making findings about cases in which it believes the payment is owed. We recommend that the Commission consult with EWOV to determine a process by which identification of such customers could occur.

We also recommend that the amount of this GSL payment be set at a higher level to reflect its seriousness and act as a genuine incentive for good management of the customer impacts of the proposed price rises. The Commission notes that electricity retailers are required to make a payment of \$250 *per day* that a customer is wrongfully disconnected from supply². Similarly, the Commission notes that most GSL payments are currently \$25 but the GSL payment amounts for the two sewer spills measures, which again have serious impacts for customers, are much higher at \$500³. We therefore recommend that the GSL payment amount for the new hardship-related GSL(s) be set at \$500. This should not pose undue cost burdens on the water businesses as this GSL event should occur rarely, if ever. As the Commission recognises, the water businesses should not have any customers who experience this event given their regulatory obligations already require them to avoid restrictions or legal action where customers are complying with an agreed payment plan⁴.

Consumer consultation

We commend the Commission for its recognition that work is necessary on the issue of customer engagement, including ways to improve its consultation processes and customer understanding of the regulatory decision making process⁵. We consider this vital as the Victorian Government considers the implementation of water market reforms, including the introduction of third party access to the water network. We recommend the Commission develop a customer engagement framework which will ensure wide reaching consultation with consumer and welfare organisations, commencing with, but not limited to, members of the Commission's Customer Consultative Committee.

Managing consumer impacts

We commend the Commission for its acknowledgment that affordability will remain an issue for low income and vulnerable groups in the forthcoming regulatory period and strongly support the Commission in its commitment to bring to the attention of Government issues associated with water grants, rebates and concessions⁶.

² ESC, p. 33

³ Ibid.

⁴ Ibid.

⁵ ESC, p. 15

⁶ ESC, p. 6

We agree that programs such as the Utility Relief Grant Scheme (URGS) and the Water Wise program have narrowly defined eligibility criteria and must be revised to reach consumers in need. We reiterate the point made in our earlier submission that the value of concessions will not keep up with the increases in water bills under existing policies. We also support the Commission in its acknowledgment that large families' non-discretionary use of water can fall into second and third tiers, and the cost relativity of different volumetric charges imposed under inclining block tariffs. We look forward to being informed on the outcome of the Commission's discussion with the Government on how such issues will be addressed.

We support the Commission in its role of monitoring the businesses' compliance with the Customer Service Code and their provision of hardship assistance⁷. We also recommend that the Commission take the necessary steps to facilitate well communicated and accessible information from water businesses and government about water grants, rebates, hardship programs and concessions available to consumers. A recent study for the Department of Sustainability and Environment showed that water businesses currently know very little about their customers apart from their quarterly water consumption⁸, while the Commission itself notes that some customers in financial difficulty may not apply for assistance because they are not aware of their eligibility⁹. This highlights an urgent need to prioritise efforts to ensure customers are well protected from falling through the gaps, particularly in a period where affordability will be an increasing issue. The Commission must work closely with businesses and consumer advocates to develop better communication processes and information campaigns about water grants, rebates, hardship programs and concessions available and identification processes for hardship programs.

Proposed retail water and sewerage charges

We support the proposals that water usage charges should increase by more than water fixed charges and increase at a faster rate than sewerage disposal charges. In particular we acknowledge that the Commission seeks a tariff structure consistent with the principles of the Water Industry Regulatory Order (WIRO) and that the Commission's proposal represents a more cost reflective approach than proposals put forward by water businesses.

We understand that the Commission will receive revised pricing proposals from water businesses which must be consistent with the WIRO. While we are supportive of these proposed changes generally, we note the concern that tenants' water bills, in particular, should not increase too greatly over the regulatory period due to an increase in usage costs relative to fixed charges. We therefore urge the Commission to ensure that the new pricing proposals received from the businesses do not result in excessive price rises for tenants' bills.

Greenhouse gas emissions

We support the Commission's decision to accept forecast offsets to be achieved by businesses participating in the Victorian Energy Efficiency Target (VEET) scheme. Further however, we believe this should be the only way in which water retailers provide consumers with showerheads and should therefore be adopted by all businesses. The cost imposition on consumers of water retailers providing 'free' showerheads can no longer be justified. With the introduction of VEET and the take up of energy conservation measures by a number of businesses to promote VEET, installed showerheads are now more accessible for all consumers to engage with water conservation and subsequently energy conservation. Unless participating as a registered participant of VEET, the role of water retailers to provide shower heads is therefore redundant, at which time they can no longer recover costs for showerheads through regulatory processes. This cost imposition represents a further imbalance for tenants who cannot actively participate in these processes and yet continue to pay for them.

We have additional concerns with the way in which further offsets are identified for purchase by water businesses to achieve 'carbon neutrality', or a reduction in emissions. The quality, type and

⁷ ESC p. 113

⁸ Marchment Hill Consulting 2009, *DSE Smart Water Metering Cost Benefit Study – Draft Report*, April, p. 44

⁹ ESC, p. 113

cost of offsets vary significantly. This highlights issues with the validity of the offsets and their certification process. As this cost is included in the price review it is important that this is reviewed by the Commission prior to approval of cost pass-through. There is a real risk that the cost of offsets will be passed through to consumers based upon premium costs when in fact they may have very little real benefit. We encourage the Commission to liaise with the Federal Department of Climate Change, which is poised to publish offset standards.

Adjusting prices during the period

The Commission notes that businesses must undertake appropriate customer consultation and address customer impacts as part of any proposal to adjust tariffs during the regulatory period¹⁰. We recommend that in light of the acknowledgement of the Commission that consultation processes need enhancing, a comprehensive consultation strategy be developed which satisfies the expectations of the Commission and consumer organisations.

We support an uncertain and unforeseen events mechanism in any application for a price adjustment during a regulatory period where consumer consultation is included as part of the development of such a mechanism.

If you wish to discuss any matters raised in this submission please contact Jo Benvenuti, Consumer Utilities Advocacy Centre on (03) 9639 7600 or Nicole Rich, Consumer Action Law Centre on (03) 9670 5088.

Yours sincerely



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¹⁰ ESC, p. 164