

5 November 2018

Dr Peter Boxall  
Chair  
IPART  
PO Box K35  
Haymarket Post Shop NSW 1240

Dear Dr Boxall,

### **Review of Essential Energy's prices for water and sewerage services in Broken Hill**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to comment on the Review of Essential Energy's prices for water and sewerage services in Broken Hill.

#### **Approach for establishing efficient costs and setting affordable prices**

*3. Should we assess the price residential, non-residential and mining customers can afford separately? What quantitative or qualitative analysis should we consider when assessing what each group can afford?*

PIAC agrees that there should be separate affordability assessments for residential, non-residential and mining consumers. These three groups are likely to have very different capacities to pay and this should be reflected in what costs are passed on to each group. For example, mining consumers are likely to have significantly more capacity to pay than residential consumers and they should not be given subsidised water prices unless a clear case can be shown as to why this should be done.

Regarding how to assess the affordability of prices for residential consumers, PIAC agrees that IPART should consider the factors included in the issues paper but should also consider the following factors:

#### **Distribution of wealth in the community**

Whilst Broken Hill has a high percentage of low income households, this does not mean all households are low-income. Hence there are also likely to be households who can afford to pay cost reflective prices and it could be appropriate to have different prices for different customers.

Whilst rebates go some way to addressing this issue, rebate payment rates need to be reviewed to ensure they will make an appropriate difference to the affordability of the bill.

There are also many low income households who are not pensioners but are still very low income. In particular, this includes large families (who also usually have high usage due to the link between large households with high water usage) who struggle to pay for essential services. A possible solution is to give rebates to households who receive the Family Tax Benefit A and B. This is a means tested mechanism which targets low income families and is already used as a way to give families an energy rebate (Family Energy Rebate).

Consideration also needs to be given to renters who are currently excluded from receiving rebates but are often on low incomes including being on a pension. It may be appropriate to extend rebates to these consumers.

Rebates are fairer if they are a percentage of the bill, rather than being a flat rate. Although Broken Hill has challenging water efficiency issues including a hot, arid climate, evaporative air conditioners and lead in the soil, helping subsidised households safely reduce their water use will assist to keep rebates lower.

Attention needs to be given to ensure that those who are eligible for a subsidy or rebate are aware of their entitlement to receive it.

A balance needs to be struck between a fair subsidy system and ensuring that the costs of administering the system do not counter the benefits. Using a system such as Family Tax Benefit eligibility could help lower the administration costs.

PIAC also notes that currently Essential Water's consumers are subsidised by Essential Energy's consumers. Given that consumers in Essential Energy's distribution area already have some of the highest electricity bills in the state, it is more appropriate that subsidisation for Essential Water's consumers come from NSW Government's general revenue.

### **Assessing need through Essential Water's restrictions, hardship program and payment plan**

PIAC is concerned by the high number of restrictions/disconnections that have been performed by Essential Water. Although not all of these restrictions/disconnections would be due to non-payment, PIAC considers IPART should investigate why the rates are so high considering restriction for non-payment should be a last resort.

PIAC commissioned UMR Strategic Research to conduct research into disconnection/restriction due to non-payment of residential energy and water bills as well as related issues such as retailer/provider supports for consumers struggling to pay their bills. Although the research is not necessarily representative of Essential Water and does include energy, it provides insights which are worth IPART considering when assessing affordability issues. We provide these results as a separate document that is not for publication because the report has yet to be released.

The research indicates that:

- The high restrictions/disconnections rates could indicate that Essential Water is not proactively identifying households in payment difficulties and providing them with assistance
- Considering that close to 10% of residential consumers are on payment plans, it is worth investigating whether people on payment plans are being restricted and if so, why this is

the case. That is, whether realistic payment plans are being implemented and whether people are being referred to hardship programs where they require further support

- There could be a substantial number of households who are already struggling with affordability issues but will not be captured by looking just at numbers of restrictions, numbers of people on payment plans and in the hardship program
- IPART should determine rates of successful exit of people from hardship programs to determine whether these programs are being adequately implemented
- IPART should also investigate whether other supports are required for Essential Water's consumers such as making the Payment Assistance Scheme, or similar program, available for Essential Water's customers

When considering the numbers of households in hardship, PIAC urges IPART to also look at the numbers of:

- Notifications of restriction issued for non-payment
- Households accumulating debt
- Households who have missed payments and late payments
- Percentage of households who receive rebates
- Pensioners (they might not be receiving a rebate because they are not aware of the rebate, the water bill might not be in their name and/or they are renting)

PIAC also suggests IPART to talk to local community groups who can give a clear understanding of vulnerability issues beyond those which are captured by statistics collected by the ABS and Essential Water.

### **Cost of living in Broken Hill**

Further, it could also be helpful to research the cost of other essential services and goods on average for residents. Getting a general idea of cost of living in Broken Hill and how it compares to other areas of NSW could help IPART better understand the capacity to pay of the Broken Hill residents.

PIAC would like to see this methodology used in other pricing reviews, particularly where there are small customer bases and a high percentage of low income residents.

PIAC notes that although water bills are currently below the state water bill average, the proposed price rises indicate that by 2021, the bills will be above the current average.

### **Annual bill increases**

*4. What is a reasonable ceiling for annual bill increases, for residential, non-residential and mining customer groups, to protect customers from bill shock?*

PIAC encourages IPART and Essential Water to ask this question of the community to assess their capacity to absorb bill increases. Organisations employing local community workers and financial counsellors are also likely to be a resource to help determine this amount. Bill rises should be implemented with support systems that can help consumers with the increased cost. Prices should be transparent and easy to understand.

## **Cost pass through events**

### *8. Are Essential Water's proposed cost pass-through events reasonable?*

Considering there are already price rise concerns for consumers, it is not justifiable to add the possibility of even higher price rises through having a cost pass-through event mechanism. PIAC agrees with IPART's assessment and adds:

- A regulatory change event is a standard risk for all regulated businesses and not a special event
- The pipeline should address many of the drought concerns and shield Broken Hill from certain impacts of the drought such as salinity/water quality issues

## **Price structure**

### **Applying the principle of cost reflective pricing**

#### *30. Should we set maximum prices in line with the principles of cost-reflective pricing?*

Although cost reflective pricing should be the goal of pricing reviews, given the circumstances of Broken Hill's price review, this may not be appropriate. These circumstances include:

- A large infrastructure spend in the form of the pipeline, including consequential works
- Delayed capital works due to the drought
- A small and declining customer base
- The socio-economic situation of the residents
- A remote and arid location
- The need for additional water usage due to issues including minimising lead dust, evaporative air conditioners and a hot climate

Taking these circumstances into account, the capacity of consumers to pay should be the priority once the costs to deliver the service are determined.

PIAC does not agree that in all circumstances that consumers imposing similar costs on the system pay similar prices. Given the particular socio-economic situation of the town, capacity to pay should override this principle.

### **Proportion of fixed and variable charges**

#### *32. Should we maintain the current proportion of fixed and variable charges for water services?*

PIAC generally supports a movement towards a higher proportion of the bill being for usage with a smaller proportion in fixed charges. This increases consumers ability to reduce their bills by lowering their water usage. However, given that the community have indicated that they would like the current split to remain the same, then PIAC supports this community consulted approach, as long as the community were consulted in a way which ensured that they were given the information they needed to make a considered decision.

In addition, given the reasons to have high water usage (as outlined above) it may also be appropriate to reduce usage costs in proportion to fixed costs.

## **Service charges for apartments and houses**

*36. Should we set different residential service charges for apartments and houses?*

In theory, prices should differ between apartments and houses to address the equity issue of apartment occupants imposing less cost on the water and sewerage system than the occupants of houses.

However, PIAC notes that the community was asked this question and they did not support differential pricing. This is not surprising considering the small number of apartments.

PIAC recommends that the pricing for services to apartments and houses remain the same for now but that the community be asked this question again as part of the next pricing review.

## **Residential sewerage prices**

*40. Should residential customers pay more for sewerage services so that they pay similar prices to non-residential customers with equivalent use?*

PIAC notes that when asked, the majority of the community did not agree with this change.

PIAC agrees with Essential Water and the community that there be no change to current sewerage price structures. Although it seems minor to impose a \$10/year/customer charge on residential consumers to stop the cross subsidisation of sewerage charges, given the socio-economics of the residents of Broken Hill, it would not be appropriate to increase bills further than necessary.

## **Customer engagement**

Customer engagement is a core responsibility of monopoly essential service providers like Essential Water. Unlike firms in competitive markets, they need to implement formal consumer engagement programs to ensure they provide market services that meet the requirements and preferences of their customers.

In its submission, Essential Water states it based its customer engagement on the Essential Energy Stakeholder Engagement Framework, which is linked to the International Association of Public Participation Standard (IAP2). PIAC supports the use of a robust and internationally recognised framework such as the IAP2 standard. Further, PIAC has had previous experience of Essential Energy's framework and considers it to be a good example of this type of document.

However, PIAC considers that the Framework could have been better applied. In its submission, Essential Water identifies four approaches to engagement used to support its pricing plan:

- A single survey
- An online community
- Meetings and
- Engagement with the Essential Water Customer Council

PIAC commends the use of these approaches. However, we consider consumer workshops, ideally deliberative forums, to be the most important method of consumer engagement. While surveys and online forums are effective for simple issues, water pricing proposals involve complex issues and trade-offs that can only be adequately explored through ongoing education and discussions between service providers and consumers. From the documentation included

in Essential Water's proposal, it appears that it did not engage with end-user consumers face-to-face. PIAC would be more confident that Essential Water had sought informed feedback if it had done so.

Despite this, Essential Water has gone to some length to transparently report the results of its customer engagement, in section 1.9 of the proposal and in Attachments 2 and 3. From this information, it appears that what engagement was done, was done well. In particular:

- The survey included a representative range of consumers
- Interruption frequency was treated as a trade-off with price and
- The outcomes are presented in a clear 'you said, we did' format

Therefore, PIAC considers that IPART can be relatively confident in Essential Water's reporting of its engagement program, despite the lack of face-to-face forum.

### **Further engagement**

PIAC would welcome the opportunity for further engagement with IPART and other stakeholders to discuss these issues in more depth. Please do not hesitate to contact Thea Bray on 8898 6520 or [tbray@piac.asn.au](mailto:tbray@piac.asn.au).

Yours sincerely,



**Thea Bray**

Policy Officer, Energy and Water  
Public Interest Advocacy Centre

Direct phone: +61 2 8898 6520

E-mail: [tbray@piac.asn.au](mailto:tbray@piac.asn.au)

**Deirdre Moor**

Deputy CEO  
Public Interest Advocacy Centre

Direct phone: +61 2 8898 6507

E-mail: [dmoor@piac.asn.au](mailto:dmoor@piac.asn.au)