



Tasmanian Council of Social Service Inc.

TasCOSS submission on the Office of the Tasmanian Economic Regulator 2018 Water and Sewerage Price Investigation Draft Report

January 2018



INTEGRITY
COMPASSION
INFLUENCE

Introduction

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to comment on the *2018 Water and Sewerage Price Investigation Draft Report* by the Office of the Tasmanian Economic Regulator (Economic Regulator).

TasCOSS is the peak body for Tasmania's community services sector and represents the interests of that sector and of the low-income and vulnerable Tasmanians that the sector supports. Our interest in this consultation relates to the essential nature of the water and sewerage services provided to the Tasmanian community by TasWater and to the contribution that the costs of those services make to the basic living costs for Tasmanian households.

We have followed the reform of the Tasmanian water and sewerage services sector closely in recent years and have made multiple submissions to the Regulator, TasWater and its predecessors and the Tasmanian Government throughout the reform process. We have consistently maintained that Tasmanian consumers should not be expected to fully fund the infrastructure required to allow TasWater to meet its regulatory obligations, since the need for significant investment is due to years of neglect and poor management by many of those responsible for Tasmania's water and sewerage infrastructure.

For this reason, we recommend that profits resulting from the prices paid by consumers must be earmarked for infrastructure improvements necessary to meet regulatory obligations and to remedy the historic neglect of infrastructure and planning.

This submission focuses on how the proposals in the *2018 Water and Sewerage Price Determination Investigation Draft Report* will affect low income and vulnerable Tasmanians.

Affordability

TasCOSS notes that the Economic Regulator seeks to balance the requirement for TasWater to remain financially sustainable and to fund expenditure necessary for compliance with health, environmental and dam safety standards, with managing the impact on customers of any increase in prices.

We appreciate that the annual price increase for fixed water, fixed sewerage and variable water charges proposed by the Economic Regulator (4.16 per cent) is lower than the increase proposed by TasWater (4.6 per cent). We recognise that TasWater faces diseconomies of scale and that water and sewerage services in Tasmania face legacy issues.

However, TasCOSS remains concerned about affordability.

The annual price increase of 4.16 per cent proposed by the Economic Regulator's *Draft Report* is too high. It does not take sufficient account of the affordability impact for low income and vulnerable households in Tasmania. The proposed annual increase is higher than CPI, and higher than any foreseeable increase to the incomes of most Tasmanians. This price increase will therefore intensify the

financial challenges already faced by many households on low and fixed incomes. With the national Consumer Price Index sitting below 2% in recent years,¹ and wages growth continuing to be relatively slow in Australia,² we know that annual increases of 4.16% - around \$50 per year - for water and sewerage services in Tasmania are unaffordable to many Tasmanian households.

The median household weekly income in Tasmania is \$1,100 compared to the Australian figure of \$1,438. In the past year, 41% of Tasmanians have experienced one or more financial stress indicators. For example:

- 25,000 households couldn't raise \$2000 in a week for an unexpected expense
- 21,000 households couldn't pay electricity or phone bills on time
- 13,700 households couldn't pay their car registration or insurance on time
- 13,000 households couldn't afford to host friends or family for a meal once a month
- 6,900 households couldn't afford to heat their home
- 5,000 households went without meals.³

An annual bill increase of approximately \$50 for an essential service (and more for households who have higher water use) is significant to people who are facing hardship and financial stress now. We know that over the three-year regulatory period Tasmanians will be paying more for other essential services such as electricity, more for housing, more for transport, and more for communications. In light of other cost of living pressures, it is certain that the proposed 4.16 % annual increase to water bills can push more Tasmanians into hardship.

The Arup Report and analysis by the Economic Regulator show that there is clear scope for TasWater to improve its efficiency, but for many Tasmanians who already can't make ends meet, there is no room to cut back further. People are harmed when essential services are priced at unaffordable levels.

TasCOSS recommends that prices increases for water and sewerage services should be limited to CPI.

Transition to target tariffs

A second cost issue relates to the cohort of TasWater customers who still face a large difference between their fixed charges and the target tariffs. TasWater's 'revised modelling' has identified 4 252 residential customers needing to transition to target tariffs during the third regulatory period.⁴

Of this group, 182 residential customers have a difference between fixed charges and target tariffs of greater than \$300 (per year) and 31 customers have differences greater than \$3000.

¹ Reserve Bank of Australia, 2017, *Measures of Consumer Price Inflation* <http://www.rba.gov.au/inflation/measures-cpi.html> , accessed 3/2/2017.

² Reserve Bank of Australia, 2017, *Why is Wage Growth so low?*

<https://www.rba.gov.au/publications/bulletin/2015/jun/pdf/bu-0615-2.pdf> , accessed 3/2/17.

³ Compiled from ABS data <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/6523.0~2013-14~Main%20Features~Financial%20Stress%20Indicators~33>

⁴ 2018 *Water and Sewerage Price Determination Investigation Draft Report* p 204

There are 3 264 non-residential customers who will transition to target tariffs during the regulatory period, and 35 non-residential customers have differences greater than \$10,000.⁵

TasCOSS appreciates that there is a need for these customers to transition to the same tariff structure as the majority of customers, both for reasons of equity and because of the regulated transition period. However, we are concerned that the increased costs will have substantial impacts on many of these customers that they will not have foreseen. The customers face these price impacts due to circumstances over which they have had no control. The transition could have been more gradual and more manageable if TasWater had identified these customers at the same time as everyone else.⁶

We share the Economic Regulator's concern about the customers facing these price increases, but we do not support the proposed approach of assigning a dedicated account manager and providing access to the TasWater Hardship Assistance Program.

This issue has arisen because TasWater processes did not identify and transition this cohort of customers along with the majority. None of these customers have in any way contributed to this problem. Individual negotiation with an account manager, and the fallback of access to the TasWater hardship program are clearly inappropriate under these circumstances.

A hardship program is not appropriate to address an issue that arises from TasWater billing, for reasons that customers could not have been aware of. A hardship program is not designed for this situation, and has compliance and potential penalty actions that are not appropriate for this group of customers.

TasCOSS recommends a systemic approach that will provide equity to all the affected customers, and will avoid placing anyone in hardship.

The impact on customers needs to be spread over an appropriate period of time, up to 8-10 years for those needing to make the greatest transition. No costs should be backdated, the customer should be charged only from the time when they are advised accurately of their expected costs into the future.

Most importantly, TasCOSS sees this as an example of why a consumer voice is critical to best practice in the provision of essential services to Tasmanians. Dedicated consumer advocacy providing oversight of the decisions and proposals that affect the Tasmanian community would reduce the risk that people face unnecessary hardship, and systemic issues are missed.

⁵ *Draft Report* chapter 13.

⁶ *Draft Report* pp 204-6

Responsibility for remedial infrastructure work

TasCOSS recognises that expenditure is required so that water and sewerage infrastructure achieves improved compliance with regulatory obligations. However, the deficiencies in Tasmania's water and sewerage infrastructure have emerged over decades of underfunding. TasCOSS contends that current Tasmanian households should not be responsible for providing the funding through their water and sewerage bills to rectify historic neglect of necessary water and sewerage infrastructure. We have long argued that governments – local, State and Federal – must make significant additional contributions to ensuring that Tasmania's water and sewerage infrastructure meets its regulatory obligations, particularly its public health, environmental and safety obligations.

TasCOSS recommends that profits resulting from the prices paid by consumers are reinvested in the infrastructure improvements necessary to meet regulatory obligations and to remedy the historic neglect of infrastructure and planning.

Recognising Assets on Commission

The Economic Regulator requests feedback on the concept of recognising assets on commissioning. The proposal is to change the timing of recognition of TasWater's new capex assets in its Regulated Asset Base (RAB). TasWater can receive a return on these assets from the time when they are recognized in the RAB. The Economic Regulator proposes to change from recognising assets in the RAB when construction commences to recognising assets once they are fully operational.⁷

TasCOSS supports this change. We agree with the Economic Regulator that it will provide an incentive for TasWater to deliver its agreed capex projects on time and on budget. We understand that the proposed change will conform to the practice for other regulated utilities. It will also align the time when costs can be recovered from consumers to the time when consumers will see benefits from the project.

Planning for asset consolidation

The Economic Regulator notes that together with the Tasmanian Audit Office, they have identified a need for TasWater to develop a long term strategic plan for service delivery across its whole portfolio of assets to avoid investment in redundant or stranded assets.⁸ The Arup report also flags the need for long term planning for asset consolidation. TasCOSS notes the importance of this issue and the risk that Tasmanians could ultimately be burdened with costs arising from decisions made without adequate long term planning. TasCOSS supports the Economic Regulator's intention to require TasWater to justify its proposed capex for the fourth regulatory period in the context of appropriate long term strategies. We hope better planning and delivery of capex projects will help to minimize future price increases.

⁷ Draft Report, p 8

⁸ Draft Report p9.

Fixed and variable water tariffs

TasCOSS has previously expressed concern about the structure of water tariffs in Tasmania. We continue to see an opportunity to improve people's capacity to control the price they pay for the essential services TasWater provides.

According to the *Draft Report* p 207, a customer using 200kl per annum in 2018-19 would pay a total bill of \$1 265, based on \$357 fixed water, \$659 fixed sewerage, and \$221 water variable (usage). This means the water usage component of a bill is about 17% of the total bill.⁹

One advantage of this structure is that it provides TasWater with a stable and predictable revenue. A disadvantage is that the relatively high proportion of fixed to variable costs makes it difficult for households to save money by reducing their water usage. It mutes the price signal to consumers and works against water conservation. TasCOSS believes people would benefit if they could exercise more control over the price they pay for water services by adjusting their use.

TasCOSS recommends a rebalancing of the fixed and variable costs to enable consumers to have more control over the costs of the water they use.

Conclusion

The essential nature of water and sewerage services require that these services are secured in a way that people can afford. TasCOSS believes that the current proposal to increase prices by 4.16 per cent per year will be unaffordable for many Tasmanians.

- TasCOSS recommends price increases be limited to CPI.
- TasCOSS recommends the establishment of an independent expert group including funded representation for residential and non-residential customers to assist TasWater to transition the final cohort of customers to target tariffs without placing them into hardship.
- TasCOSS recommends that profits resulting from the prices paid by consumers are reinvested in the infrastructure improvements necessary to meet regulatory obligations and to remedy the historic neglect of infrastructure and planning.
- TasCOSS recommends a rebalancing of the fixed and variable costs to enable consumers to have more control over the costs of the water they use.

⁹ This is consistent with the *Tasmanian Water and Sewerage State of the Industry Report 2015-2016*, which states "The typical annual bill for residential customers with average water consumption (176 kL per annum) was \$1 062 in 2015-16. The typical bill is based on \$501 for water and \$561 for sewerage. The water usage component (based on measured volume) accounts for 16 per cent of the total bill." Office of the Tasmanian Economic Regulator, *Tasmanian Water and Sewerage State of the Industry Report 2015-2016*, p X. *Tasmanian Water and Sewerage State of the Industry Report 2015-2016* <http://www.economicregulator.tas.gov.au/Documents/SOIR%202015-16%20Report.PDF>

- TasCOSS supports the Economic Regulator's proposal to implement the concept of new capex not being added to TasWater's RAB until the asset has been commissioned.
- TasCOSS supports the Economic Regulator's intention to require TasWater to justify its proposed capex for the fourth regulatory period in the context of appropriate long term strategies.

We hope our comments assist in the preparation of the final Water & Sewerage Price Determination for 2018-2021.