

# Issues Paper Submission to the Economic Regulation Authority



**wacoss**

Western Australian  
Council of Social Service Inc

*Ways to make  
a difference*

*Inquiry on Country Water and Wastewater Pricing in  
Western Australia*

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## INTRODUCTION

The Western Australian Council of Social Service Incorporated (WACOSS) is the peak body of the community service sector across Western Australia. Since 1956, WACOSS has been developing and strengthening the non-government community services sector's capacity to assist all Western Australians. With over 350 members, WACOSS has strong relationships with the social services sector and seeks to represent their interests, and those of the disadvantaged individuals and families they assist at a service level. Given this relationship, WACOSS is in a unique position to comment on issues in our society that socially impact upon disadvantaged members of the community.

WACOSS is well respected within both government and non-government arenas as being an authoritative voice for consumers with regard to Utility reform in WA. WACOSS has developed a strong network with Utility Policy Workers across Australia, which provides us with information and expert opinion on these issues.

In March 2005, WACOSS commenced the Consumer Utilities Project, funded through the Department of Consumer and Employment Protection. This project will build upon the utility policy work WACOSS has undertaken over the past 4 years. The Consumer Utilities Project has been established to work with consumers and representative organisations to achieve better outcomes in the provision of essential services.

WACOSS has direct access to the issues of low-income and disadvantaged consumers through our Consumer Reference Group, which includes representatives from the Emergency Relief sector, Unions, Financial Counsellors and Community Legal Centres. These agencies provide us with policy information and direction in relation to our work and look to us to represent the interests of their clients with regard to water issues. We have taken on this role due to the level and severity of the Utility issues being raised by community agencies and the fact that there is no other resourced body in Western Australia representing these issues.

Providing a response to the Inquiry on Country Water and Wastewater Pricing issues paper is an important process for WACOSS to engage in to endeavour to ensure the Economic Regulation Authority (ERA) give appropriate consideration to the social impacts when conducting their analysis and making recommendations to the State Government in their final report.

## EXECUTIVE SUMMARY

Water is an essential service in maintaining life, well-being and general community health standards. Water usage can be either necessary or discretionary. That is, there is a level of water usage that is unavoidable to sustain a relative standard of life and water usage above this standard for non-essential purposes. Any changes to existing pricing structures and/or the development of new pricing structures must guarantee access to an affordable level of water, and most particularly, ensure that necessary use of water is affordable for all households.

WACOSS understands that many of the Terms of Reference of the Inquiry refer specifically to the Water Corporation; however we also believe that recommendations and any potential impacts also need to be considered in broader terms, of all water consumers, regardless of who provides their water service. For example, customers of private providers will also be impacted upon if changes are made to the uniform tariff policy, however if their demographics and issues are not factored into ERA modelling, then they are at risk of being disadvantaged by any changes.

Within this submission, WACOSS has made the following comments;

- It is appropriate and necessary that Governments ensure all members of the West Australian community can access essential services on a relatively equitable basis.
- Cost-reflective pricing does not acknowledge the essential nature of the service, nor does cost reflective pricing acknowledge the principle of affordability.
- WACOSS supports an extension of concessions on water usage for Perth and Group A residents up to 600kL/year.
- WACOSS is currently urging the government to conduct a whole of government review of state concessions.
- WACOSS supports the approach of acknowledging the particular climatic and other influences of water usage within areas of Western Australia.
- The level of debt in the North West Region is of concern to WACOSS.
- Further detail and information regarding CSO's should be made publicly available.
- CSO's exist to ensure universal access to services.
- It is important that progressive wastewater charges, based on property valuation, continue to be applied.

WACOSS has addressed each of the issues identified in the issues paper. Absence of comment on any section of the issues paper should not be taken as support for or opposition to the points raised by the ERA.

## SUMMARY OF ISSUES

- 1. Are you satisfied with the current application of uniform tariffs to all residential customers throughout the State who use up to 350 kL/year? If not, at what level of water usage would you prefer to see the uniform tariff policy apply?**

As an essential service, all members of the West Australian community should have access to a level of water that maintains a suitable quality of life.

The vast geography of Western Australia poses challenges for governments and service providers in the delivery of all manner of essential and other services and infrastructure. Often the costs associated with the service provision and development of new infrastructure leads to remote and regional areas of Western Australia missing out. This is a reality for many remote and regional communities, in particular indigenous communities, who do not have even basic services which could be compared to or at a level acceptable to metropolitan members of the community.

It is a reality that service provision in remote and regional Western Australia will often cost more. As identified, the State Government currently provides a Community Service Obligation (CSO) to the Water Corporation to cover the funding shortfall in providing water services to remote and regional towns. The ERA comments on the CSO paid by the Government to the Water Corporation to cover the non cost-reflective water charges:

“It should be noted that the Corporation receives Community Service Obligation (CSO) payments in return for applying charges in country towns that are not cost-reflective. In 2004/05 CSO payments amounted to \$288 million. This amount compares to dividends paid by the Corporation to the Government of \$292 million in 2004/05.” (pg 5)

The 2004/05 CSO payments made “in return for applying charges in country towns that are not cost-reflective” was approximately \$178 million<sup>1</sup>, with the remaining \$110 million of the government funding covering other items such as the Water-Wise Rebate scheme.

It is appropriate and necessary that Governments ensure all members of the West Australian community can access essential services on a relatively equitable basis. The application of a uniform tariff policy acknowledges that regardless of where people live and the influences on levels of services; such as climate, economies of scale, and cost of service provision, they should have equal access to an essential service.

The ERA identifies that “Coincidentally, the uniform tariff threshold (350kL) was close to the average level of water usage for the Corporation’s metropolitan

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<sup>1</sup> 2005-06 WA State Budget Paper No3: *Economic and Fiscal Outlook*. May 2005. Page 226.

residential customers at the time". Despite the coincidence, WACOSS supports the uniform tariff threshold being set at a level of agreed water use for individuals to maintain a reasonable quality of life, recognizing the essential nature of water services.

**2. Do you think that the current approach of providing different thresholds to different customer groups for the purpose of charging prices that are more cost-reflective is appropriate? If not, what approach would you prefer to see applied?**

Cost-reflective prices are currently being applied, with the assignment of Groups (A or B) and classes (1 to 5) within those groups. The ERA states that: "...country towns are allocated to classes according to the costs of servicing the town".

As stated above, to achieve equitable access to an essential service, the pricing models need to support this outcome. Cost-reflective pricing does not acknowledge the essential nature of the service, nor does cost reflective pricing acknowledge the principle of affordability.

**3. Are you satisfied with the current charging arrangements for pensioners, who receive a 50 per cent concession on water usage up to 150 kL/year in Perth, 400 kL/year in Group A and 600 kL/year in Group B? If not, what alternatives would you prefer?**

As identified, different concessions apply to Metropolitan, Group A and Group B customers. WACOSS supports an extension of concessions on water usage for Perth and Group A residents up to 600kL/year. Under the current usage charges for group A residents (Attachment one) for amounts between 400 and 600 kL/year, residents pay up to 95.2 cents/kL more than group B residents. When current concession are applied, eligible concession card holders in Group A pay as much as 138.6 cents/kL more than eligible concession card holders in Group B.

As identified in the WACOSS Submission to the ERA draft report on Urban Water and Wastewater Pricing;

"Whilst concessions for pensioners and seniors for water consumption provide much-needed assistance for these groups, they are not universally available for low-income households. There is an urgent need for concessions to be reviewed to: firstly, ensure that they adequately provide assistance to low-income households; and secondly, expand eligibility to allow Health Care Card holders to also access concessions on water usage. In addition the current CSO's only

apply for the Water Corporation, and not for other water providers resulting in inadequate concessions for non Water Corporation consumers.”<sup>2</sup>

WACOSS is currently urging the government to conduct a whole of government review of state concessions to more appropriately assess the impact of current concessions and make recommendations for changes to improve concessions from both a government and citizen perspective.

**4. Do you think that the current approach to setting country residential water usage charges above the uniform tariff threshold is appropriate? If not, how should those water usage charges be set?**

WACOSS supports the approach of acknowledging the particular climatic and other influences of water usage within areas of Western Australia; however we also recognize that current usage charges above the uniform tariff threshold for Group B customers shows that “Group B customers are more likely to use larger amounts of water and pay a higher usage charge than Group A customers”<sup>3</sup>

WACOSS have undertaken an initial assessment of Group B customers which show that approximately 45% of people within the North West Region use over 550kL of water per year, approximately 13% of residential customers in the North West Region are debtors to the Water Corporation owing close to \$1.3 million. These figures in comparison to the Perth region show that despite the North West Region having a population 30 times smaller than the Perth Region, the total amount of debt is only 10 times smaller than the Perth level of debt. That is to say, there are less people who owe more money to the Water Corporation within the North West (Group B) region.

The level of debt in the North West Region is of concern to WACOSS, and we have been working with the Water Corporation to address these concerns. WACOSS believes a key principle of price setting should be affordability, and since the figures above indicate people within the North West Region (Group B) may be unable to afford their water bills, this suggests the level of Group B tariff above the uniform tariff are too high.

**5. Do you think that the current approach to setting country commercial water usage charges is appropriate? If not, how should those water usage charges be set?**

No comments.

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<sup>2</sup> WACOSS Submission (page 42)

<sup>3</sup> ERA, Issues Paper (page 11)

**6. Does the current classification of country towns into classes appear appropriate? If not, how should country towns be allocated to classes for the purpose of setting water usage charges?**

WACOSS believes it is important to ensure that all West Australian have equal access to water as an essential service. This should be the first principle upon which prices are determined, and then, once affordability mechanisms are in place, attempt to recover the costs from the service. Governments are not in the business of providing essential services for any other reason that to ensure the citizens have access to basic services. If they achieve other aims, such as provide dividends for government then these are positive bonuses, but not the main aim of the operation.

**7. What methodological issues need to be considered when setting usage charges that apply above the uniform tariff threshold for country residential water customers and for usage charges that apply for country commercial water customers?**

Cost-reflective prices are currently being applied, with the assignment of Groups (A or B) and classes (1 to 5) within those groups. The ERA states that: "...country towns are allocated to classes according to the costs of servicing the town".

As stated above, to achieve equitable access to an essential service, the pricing models need to support this outcome. Cost-reflective pricing does not acknowledge the essential nature of the service, nor does cost reflective pricing acknowledge the principle of affordability.

**8. Is there a better way of identifying the extent that CSOs are paid for the purpose of funding cross-subsidised customers?**

Current CSO's are stated within government budget papers; and WACOSS commends Treasury for providing this information, however to gain a better understanding of the full extent of cross subsidisation, it is necessary for this information to be provided for each region/town so consumers and their representatives have greater detail about CSO's. WACOSS believes that this information should be made available and easily accessible to increase public confidence in the charges consumers are being levied for their water.

**9. What principles should guide the payment of CSOs?**

Over the last decade, governments across the country have begun adopting the user pays principle for a range of services that were originally supplied at no cost. An alternative to providing CSO's is to grant universal access to a good or service. That is, instead of some consumers receiving the good or service for no

charge or a discounted charge, all consumers receive the good or service at no charge.

CSO's exist to ensure universal access to services, and in the case of Water Corporation services, CSO are utilised as a 'subsidy' for the provision of country water supplies, and as a means of providing a concession for low income and disadvantaged members of our community. CSO payments are an integral part of the range of support needed by disadvantaged individuals and families. It is important to provide concessions for equity purposes, not as purely a form of charity. It is vital that concessions are accessible, equitable and adequate and these principles should guide the payment of CSO's.

**10. Do you think that the way the water service charges are set for country commercial customers is appropriate? If not, how should these charges be set?**

No comments

**11. Are you satisfied with the current charging arrangements for country residential wastewater services? If not, what charging arrangement would be more appropriate?**

It is important that progressive wastewater charges, based on property valuation, continue to be applied.

WACOSS acknowledges the state government commitment, following the release of the final report of the Inquiry into Urban water and Wastewater Pricing;

"However, the Government will not endorse any actions that disadvantage low income households," he said. "We will not, for example, support the recommendation to change the pricing structure for waste water services, which we believe would disadvantage people with low value properties and renters."<sup>4</sup>

**12. Should country residential wastewater charges be subject to a cap while metropolitan charges are not? If country residential wastewater charges are to be capped, at what level should this cap be set?**

WACOSS has no comments at this stage, but we hope to provide further comment during the draft report consultation process.

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<sup>4</sup> Eric Ripper. Media Statement. 30 November 2005.



13. Do you consider that the Corporation's commercial wastewater charges should be the same across the State? If not, how should these charges be set for country towns?

No comments.

Attachment One  
**2005/06 Water Prices.**

M= Metropolitan. A= Group A. B= Group B. 1-5 =Classes of charges.

Usage (kL/year)	M1	M2	A1	A2	A3	A4	A5	B1	B2	B3	B4	B5
0-150	41.6	42.5	42.5	42.5	42.5	42.5	42.5	42.5	42.5	42.5	42.5	42.5
151-350	67.4	68.9	68.9	68.9	68.9	68.9	68.9	68.9	68.9	68.9	68.9	68.9
351-450	91.0	93.0	85.1	87.6	87.6	87.6	87.6	68.9	68.9	68.9	68.9	68.9
451-550	91.0	93.0	85.1	113.1	124.3	135.7	139.5	68.9	68.9	68.9	68.9	68.9
551-650	120.0	122.6	122.6	128.0	147.4	163.0	178.4	77.7	83.2	83.2	83.2	83.2
651-750	120.0	122.6	122.2	128.0	147.4	163.0	178.4	122.6	128.0	147.4	163.0	178.4
751-950	120.0	122.6	156.0	211.3	235.7	268.2	300.7	156.0	211.3	235.7	268.2	300.7
951-1150	150.0	153.3	156.0	211.3	235.7	268.2	300.7	156.0	211.3	235.7	268.2	300.7
1151-1550	150.0	153.3	224.1	308.0	357.4	487.6	601.1	224.1	308.8	357.4	487.6	601.1
1551-1950	150.0	153.3	258.3	381.9	471.3	585.1	698.8	258.3	381.9	471.3	585.1	698.8
Over 1950	150.0	153.3	300.2	487.6	568.8	682.4	780.0	300.2	487.6	568.8	682.4	780.0