

24 October 2006

Mr Sean Crees  
Acting Director Regulation (Water)  
Essential Services Commission  
Level 2, 35 Spring Street  
MELBOURNE VIC 3000  
By email : [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)

Dear Mr Crees

The Consumer Utilities Advocacy Centre (CUAC) Ltd thanks you for the opportunity to make a late commentary on the Essential Services Commission (ESC) paper titled *2008 Water Price Review : Guidance on Water Plans*.

The businesses' Water Plans are crucial for enabling consumers to comprehend each water company's services, operational and capital maintenance programs and associated pricing structures for the regulatory period to which it relates. As such, it is important that information of relevance to consumers is easily located within the Plan.

In summary, CUAC endorses the overall intent and direction of the Guidance Paper, to ensure water businesses put forward information in their water plans that provides a clear, sound and reasoned basis for water prices, particularly as they relate to the proposed services during the course of the regulatory period.

#### **A. Customer Consultation**

CUAC views the involvement of consumers in the development of water plans as central to ensuring sound outcomes with regards to price and affordability throughout the regulatory period. As such, the Commission must ensure all water retailers are aware of the need to undertake robust consultation with consumers, particularly in relation to service standards, pricing structures and proposed infrastructure maintenance and upgrade works.

The Guidance Paper identifies a range of options for consultation with customers (p 10). CUAC believes that it would be of value to provide more detailed guidance to water companies about how best and when particular methods can be usefully employed, to underline what form of consultation would be acceptable (and what would be unacceptable) in approving changes to services. A defining characteristic of the two previous Determinations was the inconsistency of customer consultation among water businesses; while some of that was a factor of time, the Commission should make clear the need for consumer consultation to be substantive, tailored to the process (e.g. proposed changes to tariff structures should be underpinned by a dialogue with customers that demonstrates their clear understanding of the impact of those changes).

The Commission could also configure that guidance into short-term consultation – in preparation of the Water Plans – and longer-term consultative mechanisms, such as customer consultative committees, to increase consumers' engagement in the regulatory decision-making process.

## **B. Guaranteed Service Levels (GSLs)**

CUAC believes that Guaranteed Service Levels (GSL) schemes provide redress to customers receiving poor service and, as a corollary, incentives for businesses to improve their services. GSLs should, therefore, not be set at levels that are too easily attainable. They should be targeted at worst serviced consumers.

CUAC supports the Commission's statement that it expects businesses with existing GSL schemes will continue to offer them in the second regulatory period (p 19). However, we are concerned that the Guidance Paper offers no encouragement to businesses who have not implemented such schemes to do so, and would recommend that all water businesses be strongly encouraged to develop GSL schemes. CUAC views the expansion of GSL schemes to all businesses as a priority.

## **C. Hardship Policies and Programs**

We anticipate that affordability of water will continue to be a key issue in the next price review. Through its Water Hardship Policies Working Group, the Commission has undertaken a positive role in ensuring that the businesses' hardship policies are improved, but there remains a continued need to encourage water authorities to develop programs that meet the needs of their consumers. As such, CUAC again recommends that water companies be required to detail their policies and programs pertaining to financial hardship in the Water Plan (either as a separate component or appendix).

CUAC's experience in previous price reviews has been that hardship policies are difficult to evaluate, which complicates any response by consumers or consumer advocates to any proposed price increases, as it is impossible to assess with any confidence the business' ability to deal with the impact of those increases. The number of companies involved in the next determination will only compound that problem. Given the inconsistent performance across the sector, we would also argue that including hardship policies would provide a fillip to improving performance through competition by comparison, by demonstrating who is doing substantive work with low-income and disadvantaged consumers and also encouraging companies to sign on to support programs such as the *Smart Homes* administered by the Department of Human Services.

## **D. Major Projects**

CUAC's experience in the last regional urban water price review was that there was often a lack of clarity in Water Plans about the status of proposed major capital investment projects and so it was difficult to make accurate judgements about their potential impacts on price throughout the regulatory period.

For the forthcoming price review, therefore, we recommend that information on all major new works should clearly identify the stage of planning and approval, as well as benefits to arise from these projects and possible price impacts. The business should include evidence that it has consulted with, and has the support of, customers with its possible implications on price and willingness to pay.

## **E. Prices and Tariff Structures**

CUAC endorses the approach taken in the Guidance Paper relating to prices. In particular, we strongly support the requirement that any proposed change in price structure must take account of the rationale for the change, the expected outcome and the anticipated responsiveness of consumers to changes in price.

We welcome particularly the Commission's requirement that businesses demonstrate their understanding of demand elasticities, which should rightly underpin any new tariff structures. However, the possible effects of price change need to be considered according to customer type in order to ascertain the impact of these changes and associated capacity to pay or where consumers are unable to change their consumption in response to new tariff structures. CUAC would therefore recommend that the Commission ensures that businesses appropriately acknowledge the needs of different *classes* of consumers (residential vs. business, low-income consumers or large families to name three examples), to ensure that any disadvantage arising from a change to tariff structures for one group is adequately addressed.

The nature of tariff proposals and structure along with the level of subsection detail sought by the Commission is supported by CUAC, as this will provide greater transparency and accountability, and so facilitate consultation with consumers.

CUAC also supports the guidance provided in relation to miscellaneous charges, to ensure consistency and that they are cost-reflective. The Water Plans should incorporate the rationale and impact on consumers of price changes to miscellaneous services.

If you have any queries relating to matters raised in this submission, I can be contacted on telephone (03) 9639 7600 or e-mail on [james.henshall@cuac.org.au](mailto:james.henshall@cuac.org.au).

Yours sincerely



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