

Energy and Water Ombudsman (Victoria) Limited

ABN 57 070 516 175

15 January 2008

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

By email: water@esc.vic.gov.au

Dear Commissioners

Re: 2008 Water Price Review: Water Plans — Issues Paper (December 2007)

Thank you for the opportunity to comment on the Essential Services Commission's (ESC's) *2008 Water Plans — Issues Paper (December 2007)* ('the Issues Paper').

The Energy and Water Ombudsman (Victoria) (EWOV) wishes to comment on three sections of the Issues Paper, namely:

- Section 2.7 – Prices and tariff structures
- Section 4.5 – New customer contributions (developer charges)
- Chapter 5 – Service standards, Guaranteed Service Levels (GSLs) and other outcomes.

Section 2.7 – Prices and tariff structures

It is outside EWOV's scope to comment on the proposed increases specifically, but we note the substantial nature of the proposed increases. Table 2.4 on page 22 illustrates that, if these price increases go ahead, five regional urban water corporations (RUWCs) will have annualised average residential bills of over \$1,000 by 2012-13. This is in a period when the costs of other essential utilities, electricity and gas, are also increasing significantly. We note that this is likely to put considerable pressure on the hardship programmes of these water companies. We would ask that the increased costs of these programmes be taken into account in the determination of the revenue that the water companies require.

Increases above the rate of inflation decrease the value of the concessions provided by Government¹ and these proposed increases are, in most instances, well in excess of reasonable expectations of inflation. EWOV suggests that the ESC takes the opportunity to state to Government that the value of concessions is being eroded and that this is something that should be addressed.

Section 4.5 – New Customer Contributions

Given the ESC's initial position in the earlier Consultation Paper that there is merit in increasing the cap from \$500 per lot to \$1,000 per lot for each of water and sewerage, it seems inevitable that this charge will be increased. EWOV has sympathy for the rationale of the VicWater proposition and considers that it is in alignment with the increasing emphasis on water conservation and reuse. However, we note that for lots in the third category there will be a total charge of up to \$6,600 per lot which is a very significant increase from the present charge of \$500.

EWOV reiterates its earlier comment² that there needs to be clear notification about any price increase and when it will come into effect, so as to avoid the unfortunate transitional effects that occurred when the charge was decreased to \$500. If the Final Determination of the Water Price Review is released shortly before 1 July 2008, it is suggested that the new charges should not come into effect until 1 January 2009 to allow time to notify consumers of the change.

Chapter 5 – Service Standards, GSLs and other outcomes

It is disappointing that only two regional urban water companies have proposed GSL schemes, in addition to the two that already have them. It seems clear that there is a difference of opinion between the ESC and the remaining water companies as to the cost of introducing such schemes. Those companies which are questioning the value of such schemes should be asked to provide costings for them and the basis of that costing should be subject to careful scrutiny.

In relation to service standards, EWOV believes it is commendable that some companies are proposing additional service standards with regard to such matters as the reduction of greenhouse emissions, service to small towns and reuse of biosolids. The rationale for these proposals would seem to be in response to environmental sustainability concerns, a sense of social obligations and Government policy settings. However, they are not service standards in the sense of interfaces between the company and the customer that have a direct impact on customer satisfaction. To that extent, it may be appropriate to assess them according to wider criteria than the support for them among the customers of

¹ The Utilities Allowance and Water and Sewerage Concessions are currently indexed annually in line with inflation. See Department of Human Services, *A Guide to Concessions in Victoria (August 2006)* pages 9-10.

² See our comments on 19 February 2007 on the ESC's *2008 Water Price Review Consultation Paper: Framework and Approach (December 2006)*

the company. Further, such initiatives can be seen as consistent with the objectives of both the *Essential Services Commission Act 2001* and the *Water Industry Act 1994*.

We trust that the above comments are helpful and look forward to further opportunities to contribute to the ESC's 2008 Water Price Review. If you have any questions, please contact Stephen Gatford, Manager Public Affairs and Policy, on (03) 9649 7599.

Yours sincerely

A handwritten signature in cursive script that reads "Fiona McLeod".

Fiona McLeod
Energy and Water Ombudsman (Victoria)