



24 April 2020

Dr Paul Paterson
Chairperson
Independent Pricing and Regulatory Tribunal
Level 15, 2-24 Rawson Place
SYDNEY NSW 2000

Dear Dr Paterson

Draft report - Review of prices for Sydney Water - March 2020

Thank you for the opportunity to comment on this draft report, which is part of IPART's Review of Prices for Sydney Water Corporation from 1 July 2020.

The Energy & Water Ombudsman NSW (EWON) investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers including Sydney Water. For water customers, we respond to complaints relating to retail and distributor activities. Our comments are informed by our investigations into these complaints, and through our community outreach and stakeholder engagement activities.

We have only responded to those questions in the draft report that align with issues customers raise with EWON.

If you would like to discuss this matter further, please contact me or Rory Campbell, Manager Policy and Research, on (02) 8218 5266.

Yours sincerely

A handwritten signature in black ink that reads "Janine Young".

Janine Young
Ombudsman
Energy & Water Ombudsman NSW



EWON Submission for IPART's Draft report - Review of prices for Sydney Water - March 2020

The Energy & Water Ombudsman NSW (EWON) investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers including Sydney Water. For water customers, we respond to complaints relating to retail and distributor activities. Our comments are informed by our investigations into these complaints, and through our community outreach and stakeholder engagement activities.

Pricing Structure

IPART's draft report on Sydney Water's pricing contains a proposal that is a significant departure from previous IPART pricing determinations, Sydney Water's own proposal, and the current proposal for Hunter Water. It suggests a different price for water consumption during times of drought which is, in effect, scarcity pricing, and this is the first time it has been proposed for essential service provision in NSW.

The proposal is to have two separate price structures with the second price to take effect when the dams are below 60% capacity and remain in place until the capacity reaches 70%. Capacity would be checked each quarter and adjustments made accordingly. EWON notes supply from the desalination plant is triggered when capacity drops below 60%, and Level 2 restrictions when dam levels fall to 40%. This means, despite there being no restrictions and no supply from the desalination plant, customers will be paying drought prices for extended periods until dam capacity is over 70%. Customers may well be concerned about a "drought price" which is in place despite dam levels being as high as 69%.

IPART argues this proposal reduces a household's expenditure by around 12% in normal conditions and only increases it by approximately 2% during drought. It also asserts simple water saving actions which reduce consumption by 4% would avoid a bill increase.

The reality is, for some vulnerable customers such as large families or people in rental accommodation, there is little discretion over consumption. I strongly encourage IPART to further explore this.

Scarcity pricing

Historically, some important principles have been followed in the provision of utilities, one of which is not to use price as a lever of control over consumption. Increasing the price to force reductions in consumption has serious consequences for vulnerable consumers without discretionary consumption patterns. This consequence can be seen in Table 1 where the groups most adversely impacted by the drought pricing structure are large families, renters, and pensioners.

The IPART proposal to encourage lower consumption through pricing leaves those who are more affluent with the ability to consume without constraint while forcing limitations on those who can't afford the increased prices.

It could be argued that the difference is not significant. However as experienced this summer, climate change driven water shortages are not just a looming threat; they are already here.

Introducing a pricing model such as the one IPART proposes sets a precedent from which it will be hard to return. It is important to conserve water and reduce excess consumption, however using the price as a tool to achieve this will adversely impact vulnerable customers while providing no incentive for those with disposable income to change high consumption behaviours.



Finally, it is puzzling that this model is proposed for Sydney Water and not for Hunter Water.

Sydney Water’s proposal is very similar to the one found in IPART’s draft report for Hunter Water. However, IPART did not consider introducing a scarcity pricing structure for the parallel Hunter Water pricing determination?

Customer Impact

Pensioners

IPART’s consideration of the effects of its proposed pricing structure on customers clearly identifies a significantly impacted group - customers who receive the pensioner rebate. Due to the rebate’s current structure, the proposed changes to the pricing structure will markedly reduce its value. Table 1 (below) shows the impact of the proposed pricing structure.

Table 1 Bill impacts by household size

Household type	2019 – 20 \$	2023 – 24 (Normal) \$	% change	2023 – 24 (Drought) \$	% change
Small 100 kL per annum	1,001	926	-8%	1,016	1%
Typical 200 kL per annum	1,212	1,179	-3%	1,359	12%
Large 300 kL per annum	1,423	1,432	1%	1,702	20%
Pensioner with rebate	346	380	10%	470	36%
Apartment	1,049	996	-5%	1,166	9%

Under the IPART proposal, pensioners will see a 10% price increase in normal conditions and, when drought pricing is in operation, they will be impacted by a 36% increase.

IPART indicated it was willing to work with the NSW Government to review the structure of the rebate.

EWON strongly supports IPART’s call for a review of the rebate structure. It is not a desirable outcome for the poorest in our community to be the most impacted by a pricing restructure. Further, rebates based upon fixed charges rather than usage are inequitable.

Rebates need to assist vulnerable consumers to access essential services and should be proportional to the charges incurred. A review of the rebate’s structure would also help address the impacts of the proposed pricing model on other disadvantaged groups.

Large families

Large households are another group adversely impacted by the pricing proposal. A large family will see a 1% rise in their bill in normal conditions and a 20% rise during drought pricing.

In 2004, IPART introduced an inclining block tariff which meant large households paid more due to their consumption levels. This impact was recognised, and it was accompanied by a large family rebate. The rebate was abolished in 2008 when the inclining block tariff was removed. If the current pricing proposal is to proceed, consideration should be given to the reintroduction of a large family rebate, or similar package.

Renters

People in rental accommodation are also disadvantaged by the proposed structure. They will not benefit from the reduction in service charges and face increased costs from the rise in consumption charges.



This is compounded by the fact renters aren't eligible for a rebate and have difficulty accessing payment assistance, and it will especially impact share households and large families in rental accommodation.

Rebate eligibility

At present the rebate is only available to Pension Concession Card holders and Veteran Gold Card holders.

Energy rebates are also available to Health Care Card holders. This category includes many vulnerable segments of the population including those who are unemployed, single parents, and people with casual and tenuous employment. Due to COVID-19, the number of people without work or with limited hours of work has increased dramatically, and this situation is unlikely to resolve itself for an extended period. It is also important to note these are the customers more likely to live in rented accommodation and who will be most adversely impacted by IPART's proposed pricing structure.

It is clear to EWON the rebate will need to be restructured concurrently with the proposed pricing restructure should it go ahead.

IPART's suggested minor changes to reduce the impact of the pricing proposals on current rebate recipients are not satisfactory, as they leave large families and renters to bear unaffordable increases and they do not address the needs of many of the most vulnerable customers.

A rebate structure is needed that provides support to the most vulnerable in our community without excluding at-risk groups such as the unemployed. Given the proposed pricing structure is focused upon consumption, and fixed charges are to be reduced, it would be logical and desirable to fix the rebate to consumption levels and establish a mechanism which enables eligible renters to claim it. The energy rebate offered through Service NSW has recently been expanded to include customers of exempt retailers - a model that could be used for extending water rebate support to tenants.

Finally, the rebate should be proportional to consumption levels rather than a fixed amount for all customers, despite the difference in bills.

Late payment fees

IPART agreed to Sydney Water's proposal to slightly increase late payment fees and dismissed PIAC's concern about the adverse impact of such fees on vulnerable customers.

IPART also pointed to the fees charged by energy companies and was seemingly unaware that late payment fees are not allowed to be charged to vulnerable customers by energy companies thanks to specific protections introduced by the NSW Government.¹ EWON believes this exemption should also apply to water customers.

In closing, while this submission suggests rebate strengthening in order to offset to some degree, the impact of a scarcity pricing model on vulnerable customers, EWON's position is that a scarcity pricing model should not be introduced.

Please direct any enquiries about this submission to Janine Young, Ombudsman on (02) 8218 5256 or Rory Campbell, Manager Policy and Research, on (02) 8218 5266.

¹ National Energy Retail Law (Adoption) Regulation 2013, clause 10