

2 October 2015

Dr Peter Boxall
Sydney Water Corporation Price Review 2016
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Dear Dr Boxall

Thank you for the opportunity to comment on *IPART's Review of prices for Sydney Water Corporation from 1 July 2016 – Issues Paper*.

The Energy & Water Ombudsman NSW (EWON) investigates and resolves complaints from customers of electricity and gas providers in NSW, and some water providers.

EWON notes that Sydney Water's proposed prices for water, wastewater and stormwater drainage services will either fall or remain unchanged in 2016-17, then remain flat over the rest of the 2016/17 to 2019/20 determination period.

For ease of reference we have adopted the same numbering as the Issues Paper.

30. Should a WAPC apply at first only to large non-residential customers? Should it apply to both water and wastewater services?

While large non-residential customers are outside of EWON's jurisdiction, we support the introduction of flexible pricing for these customers as it would better match pricing to the usage profile of large businesses, provide customer choice, and offer incentives to encourage efficient usage. However, the advantages of flexible pricing would only be realised if customers are clearly and fully informed of pricing arrangements, and these arrangements are simple enough to understand in order to generate behavioural change in response to price signals.

Further and as discussed in IPART's Issues Paper¹, EWON does not support the extension of flexible pricing to **residential** customers until at least advanced metering technology is in place to facilitate a shift to flexible pricing.

¹ IPART Review of prices for Sydney Water Corporation – Issues Paper, p 99-100.

You may be interested to know, however, that the Essential Services Commission recently proposed an energy usage only tariff for financially vulnerable customers within a structured payment assistance program as an alternative to hardship programs.² The purpose of this tariff is to encourage customers to reduce their usage and therefore reduce their arrears over time. This concept could be further explored to determine if benefits of this type of tariff for vulnerable customers exist in the water industry.

36. Is Sydney Water's proposal to rebase water and wastewater service charges to a 20mm meter equivalent reasonable, in terms of its impacts on different customer groups?

EWON understands that Sydney Water has proposed to deem all residential dwellings as having a 20mm meter regardless of meter type, and to change the basis of non-residential meter-based charges from a 25mm meter to a 20mm meter.

EWON notes that this proposal to rebase water and wastewater service charges to a 20mm meter provides equity among residential customers irrespective of dwelling type, and also provides equity between residential and non-residential customers. We support this proposal if it provides clearer and more readily comprehensible pricing structures to residential and business customers.

38. Are Sydney Water's proposed changes to charges to joint service arrangements appropriate?

EWON understands that a joint service arrangement occurs where multiple adjoining properties access Sydney Water's network through a single connection. In this situation, the first property has a water meter that is connected to the network and the adjoining, unmetered properties connect to the first property through private pipes. We understand that Sydney Water currently treats these properties as one multi-premises and therefore bills the metered property one meter-based water and wastewater service charge, and any division of bills between the properties is subject to private arrangements between the metered and unmetered properties.

EWON notes that Sydney Water has proposed to change billing practices for non-residential multi-premises. As we understand it, this involves Sydney Water continuing to charge the

² See Essential Services Commission, 'Supporting Customers, Avoiding Labels: Energy Hardship Inquiry Draft Report', September 2015.

metered multi-premises meter-based water and wastewater charges but also bill the unmetered multi-premises a 'base' water and wastewater service charge determined by IPART.

EWON does not have a view on the appropriateness of Sydney Water's proposed changes to joint service arrangements. However, we consider that any changes to the pricing structure needs to be clear, easy to understand and communicated well to affected customers to minimise customer complaints to EWON.

39. Should dual occupancies be charged:

- **a single water service charge and a wastewater service charge in line with Sydney Water's proposal; or**
- **as two distinct properties as is currently the case, where both the main dwelling and the secondary dwelling each attract a water service charge and a wastewater service charge?**

EWON understands that a single set of charges may be appropriate in light of difficulties in identifying dual occupancy properties, however we support IPART's view³ that separate charges should apply where it is identified that a dual occupancy is separately metered.

40. What is the most appropriate name for the current fixed 'service charge'?

EWON notes Sydney Water's concern that there is customer confusion around the meaning of 'service charge' on their bills. We share this concern as it is not uncommon for customers to query the meaning and purpose of the charge when they contact EWON to dispute their bills.

While IPART's preferred alternative ('availability charge') more accurately reflects the purpose of the charge (that is, a charge intended to recover the fixed costs associated with making a service available to customers), we note that the Australian Energy Regulator's recent consultation on the *Retail Pricing Information Guidelines* (the Guidelines) considered the same issue.

In the final Guidelines released in August 2015, the AER mandated the use of clear, simple and widely understood language on Energy Price Fact Sheets and marketing material. This included prohibiting the use of the term 'standing charge' or 'fixed charge', and requiring energy retailers to use the term 'daily supply charge'. Although the AER has not required energy retailers to use

³ IPART Review of prices for Sydney Water Corporation – Issues Paper, p 132.

the same language on bills, the Guidelines encourage retailers to maintain consistency between bills and marketing materials.

EWON therefore considers that Sydney Water would be taking a leading position, if it applied the term 'daily supply charge' on its bills, in introducing consistency across the energy and water sectors and in moving to clear, simple and widely understood language for its customers.

41. Is Sydney Water's proposed water usage charge of \$1.97 per kL reasonable? If so, why?

While EWON does not have a view on the dollar amount of the proposed water usage charge, it is timely to consider pricing structures as utility pricing becomes more reflective of costs and customer preferences. It is therefore useful to involve stakeholders in a discussion about the benefits and impacts of a higher fixed water service charge (providing bill certainty) versus a higher water usage price (providing bill control).

While both models will impact customers differently depending on their usage profile, EWON is of the view that there is greater merit in a higher water usage price. Households which are able to reduce their usage and bills by becoming water efficient and small, low or fixed income households, such as couples or singles, will benefit from this approach.

However, we note that this model may adversely impact on high usage households with low or fixed incomes and affordability issues. It therefore would be appropriate to review the level of assistance available to these households, such as introducing a percentage discount off the entire bill to offset the effect of higher water usage prices. We note that Sydney Water currently offers a percentage discount off wastewater service and stormwater charges where low income household eligibility exists, and the percentage discount for water service is currently capped at \$25.63.⁴ A percentage discount off the entire bill will ensure that there is an adequate safety net for high usage, vulnerable families who are unable to adjust their usage patterns.

EWON notes that moving towards a bill certainty model, with a higher fixed water service charge, may advantage high usage households but disadvantage low income, low usage households (such as aged pensioners). If this model is implemented, a review of Sydney Water's pension rebate amount would be appropriate to offset the adverse impact of higher fixed service charge on low income, low usage households.

⁴ Information on pension rebates obtained from Sydney Water's website <<http://www.sydneywater.com.au/SW/accounts-billing/paying-your-bill/pension-rebates/index.htm>> (accessed 28 September 2015).

46. Should residential customers pay a wastewater usage charge?

IPART's Issues Paper is consulting on whether residential customers should pay a wastewater usage charge on a user pays basis in combination with a lower fixed wastewater service charge. We note that IPART and Sydney Water have not settled on a cost methodology for setting such a charge.⁵ Our preliminary view is that there are benefits in shifting to a user pays approach. As we understand it, the cost of residential customers discharging wastewater into the system is currently only recovered through a fixed wastewater service charge. A move to a user pays model involving a fixed service and a variable usage charge may result in cost reflective billing and remove cross-subsidies between customers that currently occur through a higher fixed service charge. We presume the usage charge would be based on a proportion of actual water usage. This means that households with low water usage and therefore low usage of the wastewater system would benefit from lower bills, and high usage households would be incentivised to reduce their water usage and therefore wastewater discharge to reduce their bills.

EWON notes, however, that some large family, high usage households are financially vulnerable and may not be in a position to reduce their wastewater discharge. We understand that Sydney Water currently provides an 83% discount concession off the quarterly wastewater service charge to pensioner customers.⁶ If wastewater usage is separated from the fixed wastewater service charge, we suggest that Sydney Water review its pension policy with a view to introducing a stand-alone concession discount off wastewater usage to ensure that the level of assistance does not diminish.

EWON also notes that some high users of water may not discharge an equally high volume of wastewater as they may choose to recycle wastewater for household use such as gardening. These customers may therefore be billed a wastewater usage charge that is higher than their actual use of the wastewater system.

⁵ IPART Review of prices for Sydney Water Corporation – Issues Paper, p 147-150.

⁶ Information on pension rebates obtained from Sydney Water's website <<http://www.sydneywater.com.au/SW/accounts-billing/paying-your-bill/pension-rebates/index.htm>> (accessed 28 September 2015).

51. Is Sydney Water's proposed late payment fee reasonable?

EWON notes Sydney Water's advice that the proposed late payment fee of \$4.10 is a cost-reflective charge. We consider that this is a reasonable basis on which to base the amount of the fee. By comparison, late payment fees charged by energy retailers currently range between \$10.90 and \$25 according to energy offers available on the AER's Energy Made Easy website. While recognising the different operating costs between utility businesses, we note that Sydney Water's amount of \$4.10 is well below the lower end of this range, and it therefore appears to be a truly cost reflective charge.

52. What type of customers should be exempt from late payment fees?

EWON notes exemption from the late payment fee applies in the following circumstances:

- Until a bill is 28 days overdue
- Where the customer has made an arrangement to pay by instalments or another payment plan
- Where part of the bill is being paid using the Payment Assistance Scheme (PAS)
- Where Sydney Water is aware that the customer has sought assistance from a community welfare organisation that is part of PAS
- Where the customer is on Sydney Water's BillAssist program
- Where the customer has identified as being in hardship
- Where the customer pays by direct debit
- Where there is a billing matter being considered by EWON.
- Where EWON has asked Sydney Water to waive the fee.

EWON supports this comprehensive range of exemptions. In particular, we welcome and support the discretion given to EWON to ask Sydney Water to waive the fee. This is an important and useful exemption. Based on our complaints experience some customers may present their financial vulnerability to EWON without necessarily raising it with their utility provider because of embarrassment. We consider it would be fair and reasonable to waive late payment fees in this situation.



These exemptions mostly mirror the exemptions available under the *National Energy Consumer Framework* (NECF) as applicable in NSW.⁷ However, EWON notes that energy customers who receive certain energy rebates⁸ are exempt from late payment fees under the NECF whereas Sydney Water customers who receive pension rebates have not been included in the proposed list of exemptions. We recommend that these customers should be exempt from the fee to ensure consistency and equity in financial assistance across the utilities sector.

EWON supports Sydney Water's plans to notify customers of the introduction of the late payment fee on bills and in other public materials. It is important to ensure customers are well informed of the change and this will assist in minimising customer confusion and complaints to EWON.

If you would like to discuss this matter further, please contact me or Jane Leung, Policy Officer, on 8218 5250.

Yours sincerely

Janine Young
Energy & Water Ombudsman NSW

⁷ See Rule 73(2) of the *National Energy Retail Rules*, and clause 10 of the *National Energy Retail Law (Adoption) Regulation 2013*.

⁸ Those receiving the Low Income Household Rebate or Medical Energy Rebate.