

# ***WACOSS Response to ERA Issues Paper***



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Western Australian  
Council of Social Service Inc

*Ways to make  
a difference*

## ***Inquiry into Tariffs of the Water Corporation, Aqwest and Busselton Water***

**September 2008**

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## **ABOUT WACOSS**

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The Western Australian Council of Social Service Incorporated (WACOSS) is the peak body of the community services 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 around 290 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 members of the community experiencing disadvantage.

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

In January 2005, WACOSS commenced the Consumer Utilities Project. Building upon the utility policy work WACOSS had undertaken over the previous four years the Consumer Utility Project works with consumers and representative organisations to achieve better outcomes in the provision of essential services.

WACOSS has direct access to the issues of disadvantaged consumers who are living on low incomes through our Consumers 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 utility issues. We have taken on this role due to the level and severity of the utility issues being raised by the community agencies and the absence of any other resourced body in Western Australia representing these issues.

## EXECUTIVE SUMMARY

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The Economic Regulation Authority (ERA) has been requested by the State Government of Western Australia to undertake an inquiry into tariffs of the Water Corporation, Aqwest and Busselton Water. The ERA has produced an Issues Paper with focus on charging structures, tariff levels and service standards, and has asked for public comment. WACOSS is pleased to provide a response to the Economic Regulation Authority's Issues Paper: *Inquiry into Tariffs of the Water Corporation, Aqwest and Busselton Water*.

The effects of water's absence or restriction on families, groups and individuals are serious and as a result need to be taken into consideration in any inquiry into water pricing. This submission will illustrate the impact that water pricing, water quality and water services have on individuals and families, and will make recommendations to the ERA with respect to these.

WACOSS has focused particularly on aspects of the ERA's issues paper, relating to issues that are most relevant to residential water consumers, particularly those living on lower incomes or facing other types of vulnerability. These people are likely to be the most adversely effected by any change in tariff design, and it is vital that these effects are documented and taken into consideration.

WACOSS states that any change to pricing structure must be done so in a way that is transparent and fair for all consumers, and that consumers who are living on lower incomes, experiencing financial hardship or other type of vulnerability should not be disadvantaged.

Absence of comment on any section of the Issues Paper should not be taken as support for, or opposition to any proposal by the authority. The questions listed throughout this paper are those asked by the ERA in its issues paper. Following each question is WACOSS's response.

For further information in regards to this submission, please contact Misty Hayden, Senior Policy Officer on (08) 9440 7222 or [misty@wacoss.org.au](mailto:misty@wacoss.org.au).

## INTRODUCTION

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Water is an essential service in maintaining life, well-being and general community health standards. It is unique amongst essential services as its availability and use is necessary for the continuation of life and the natural environment. 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.

Restricted access to water in cases where the consumer has a genuine incapacity to pay or is experiencing financial hardship has the potential to cause people to go without other essential services or necessities like food, in an effort to become or stay reconnected<sup>1</sup>. The potential effects of disconnection or restriction from water supply can be severe and can include:

- Emotional and psychological impacts; including feelings of shame or failure which follow the incidence of disconnection or restriction<sup>2</sup>.
- Direct financial impacts resulting from the disconnection, these can include late payment fees and reconnection fees which may be levied by the service provider as a result of non-payment. Other direct financial costs incurred may include high cost credit obtained in an effort to regain connection to the service. Examples of this type of credit include high interest credit cards and pay day loans<sup>3</sup>.
- Significant health and safety impacts may arise when a home is disconnected or restricted from water. Hygiene may be difficult to maintain in high occupancy households. Similarly, the reduced capacity to heat water may have significant health impacts for individuals and groups<sup>4</sup>.

In 1998 The United Kingdom's government acknowledged the potential health consequences of restriction or disconnection of water supply, and has placed a ban on all disconnections and restriction of supply, this ban is still in place today. The following quote from the United Kingdom's Water Industry Bill is reflective of this.

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<sup>1</sup> "Keeping the Flow" *The Water Corporation and Credit Management*, WACOSS, May 2007.

<sup>2</sup> *Low Income Residential Retrofitting – Sustainable Social Policy & an Equitable Response to the Climate Change Challenge*, WACOSS, August 2008.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

*“The Government believes that access to water is essential to the maintenance of general good health and wellbeing. Some of the greatest improvements in general public health have stemmed from every household having access to a constant supply of potable water. Good hygiene and effective sanitation are key elements to the maintenance of good health and each depends on having constant access to water. Where the water supply is disconnected, the maintenance of good health and hygiene can only be put at risk. In light of this, and having considerable and available evidence, the government believes that disconnection does not have to be an integral part of the process of collecting arrears of charges for water supplied to domestic premises<sup>5</sup>.”*

## **WACOSS RESPONSE TO ERA ISSUES PAPER:**

### **INQUIRY INTO TARIFFS OF THE WATER CORPORATION, AQWEST AND BUSSELTON WATER**

#### **Are the current levels of service appropriate?**

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WACOSS believes that the existing service standards do not reflect the needs or priorities of the majority of customers that are on low incomes or experiencing disadvantage in Western Australia.

Suggestions for improvement which are relevant to the development of further Service Standards include:

- Abolition of the use of supply restrictions as a debt management tool, as it can have serious and negative health and social impacts on consumers. This will be discussed in more detail later in this submission.
- Increased awareness of the social impact of debt management practices in particular supply restrictions. This can be achieved through attendance to appropriate training by staff around social issues and the impact of supply restrictions and disconnections on consumers.
- Immediate cessation of practice whereby concession eligibility is cancelled for the year where the customer has been unable to pay the full rebated amount in full within that year.
- Increased awareness of issues around access to water in rural and remote Aboriginal communities and significant improvement of water quality and service in these communities.

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<sup>5</sup> *Water Industry Bill*, House of Commons Library, 1998/99.

## Water Services in Rural and Remote Aboriginal Communities

Discrete Aboriginal communities are often situated in arid areas of Australia where potable water is not readily available. In 2006, barely twenty percent of discrete Aboriginal communities in Australia were connected to town water supplies<sup>6</sup>. Bores are used as the main water supply in 58% of communities. Several communities have previously had to resort to transporting water in order to gain access to it, sometimes due to problems with bores. Some have no organised water supply at all<sup>7</sup>.

Of those communities not connected to town water supplies, 76 reported restricted access to water at least once within the last twelve months. Restrictions were largely due to drought; dry seasons; lack of storage containment; and poor water quality<sup>8</sup>. These restrictions affected over 25,000 people. 182 communities experience water interruptions. Most of these interruptions are due to equipment breakdown. In addition, interruptions are experienced due to sources running dry, poor water quality and lack of power<sup>9</sup>. These interruptions affected almost 50,000 people. In 69 of the communities, interruptions had occurred at least five times in the last year<sup>10</sup>.

Interruptions to water supply could be heavily reduced by proper maintenance. The appropriate skilled persons for these tasks rarely live in discrete communities which accounts for delayed responses to encountered problems<sup>11</sup>.

The quality of water available in Aboriginal communities is alarming. In 48 communities not connected to town water supplies, health safety levels were not met in tests conducted in 2006<sup>12</sup>. Over 12,000 people were living in these communities where water was not safe to consume. In some communities, such as Burringurrah in the Gascoyne, elevated levels of uranium have been reported<sup>13</sup>. Exposure to elevated levels of uranium can cause long term health effects. Also, nitrates present in the Burringurrah water supply, makes infants vulnerable to nitrate poisoning, sometimes referred to as 'blue baby syndrome,' a serious health problem<sup>14</sup>.

As demonstrated above, appropriate water quality and service in rural and remote Aboriginal communities is not being achieved. WACOSS firmly asserts that more effort needs to be placed in addressing these issues.

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<sup>6</sup> Farrell, D. 2006, 'Chapter 3: A Profile of Discrete Aboriginal and Torres Strait Islander Communities', *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities*, Australian Bureau of Statistics, viewed 23 April 2008, [http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E4705677FB7487A2CA2572BF001962CE/\\$File/47100\\_2006%20\(Reissue\).pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/E4705677FB7487A2CA2572BF001962CE/$File/47100_2006%20(Reissue).pdf).

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Remote Area Essential Services Program, n.d., *The Quality of Drinking Water in Burringurrah (Mt James)*, Department of Health and Department of Housing and Works, Government of Western Australia.

<sup>14</sup> Ibid.

## **What pricing principles should guide the setting of water usage charges?**

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As pricing is a major factor in deciding whether or not water services are equitable and socially sustainable, WACOSS has developed a set of principles which should apply to decision-making around water tariffs.

### ***1. Pricing Processes Should Be Transparent and Fair***

Increases to water charges have the capacity to impact significantly on consumers. The processes leading to changes in consumer water pricing must be transparent and fair. Any necessary increase to water prices should be subject to a social impact assessment. Additionally, such changes should be implemented gradually and not disproportionately disadvantage any group of water consumers.

In order for pricing processes to be transparent and fair, WACOSS asserts that the ERA should continue to make recommendations to the Government based on consultation and feedback from key stakeholders. The Minister should take these recommendations into consideration when deciding on pricing processes and should provide justification for any decisions made.

### ***2. Water Resources Should Be Priced Sustainably***

Water for residential use should be priced in such a way that it assists the provider in delivering water to consumers in an economically sustainable fashion. WACOSS believes that given the status of water as a service necessary for the maintenance of life, that water should not be priced in such a way that it is regarded as a revenue raising mechanism for government or private enterprise, over and above the cost of supplying the water and should take into account environmental externalities.

### ***3. Price is an Inappropriate Demand Reduction Strategy***

Research worldwide has indicated that water demand is relatively inelastic to increases in price. WACOSS asserts that increases to the price of water are not an effective or equitable way of achieving reduced levels of water consumption. This is especially true for people living on lower incomes, who have limited or no capacity to reduce their water use. Appropriate demand reduction strategies may include the further development of efficiency programs including improvement to building efficiency codes, which are appropriate and available to people living on lower incomes or else facing financial and other types of hardship.

### ***4. The Cost of Water Should Be Applied Equitably***

Across Australia, the majority of major urban water utilities charge for water based on an inclining tariff scale. This typically results in larger users of water paying more per unit than people who use less. Nominally, these tariff structures are intended to promote efficient water use and assist in recouping the cost of increased levels of water storage, pumping and production. There is also a shift in Western Australia away from fixed annual property charges to higher volumetric consumption charges. Water pricing

models, including the separation of volumetric consumption from other charges, should be structured in such a way that costs are distributed in an equitable and fair fashion.

### ***5. Tenants Should Not Be Disadvantaged***

For many people long term tenancies are fast becoming the most viable form of residential tenure as home ownership becomes increasingly unattainable. Changes to the current housing market, including the cost and availability of affordable, sustainable housing, increasing interest rates, wage and salary increases which are no longer keeping up with inflation along with many other social and economic variables have seen an increase in the number of citizens renting and for longer periods of time<sup>15</sup>.

In many instances, owners are passing onto tenants some of the costs of capital investment, such as the cost of maintaining gardens and lawns including verge side maintenance through special conditions within the tenancy agreement. Tenants are under increasing pressure to accept these in order to remain competitive for the decreasingly available number of rental properties<sup>16</sup>.

Tenants are increasingly responsible for a larger proportion of water bills, however, with the increased liability, tenants are not also provided with increased consumer rights, as they are not considered the account holder by the Water Corporation. Generally tenants do not currently receive itemised water accounts from the owner. A request for payment is notified to the tenant usually only with a stipulated amount required<sup>17</sup>.

Mechanisms should be set in place to ensure that this group is not disproportionately affected by increases to usage charges. Tenants should not be used to, in effect, subsidise the water costs of property owners.

### ***6. People Living On Lower Incomes Should Not Be Disadvantaged***

Currently, concessions on water use as well as fixed and annual charges are available to some older West Australians and people permanently incapacitated by service in the armed forces. Increases to water charges have the potential to affect other groups living on lower incomes; therefore eligibility for concessions should be expanded to be made available to these groups as a government Community Service Obligation, for example those people in receipt of a Health Care Card or Pension Card.

### ***7. People Facing Financial Hardship Should Not Be Disadvantaged***

Many people will face periods of financial and other hardship at some point in their lives. This hardship can affect people's capacity to pay for even the most basic services. Higher utility bills have the potential to impact on people's ability to pay for other necessities like food and education. Therefore there is a great need for water services to have effective hardship policies to ensure that these individuals and families are not disadvantaged.

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<sup>15</sup> *Review of Western Australia's Water Service Legislation Draft Report*, WACOSS, March, 2007, p. 8.

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

WACOSS provides strong support for the implementation of an enforceable code of conduct, as currently exists for the energy sector. In particular there is, there is a need for a legislative customer services code with a strong focus on issues of consumer protection, including the interests of those consumers not currently considered customers such as tenants. Generalist state and commonwealth legislation does not adequately protect consumers of this type of essential service. A legislative customer service code would ameliorate this situation to some extent, improving overall protection framework<sup>18</sup>.

WACOSS also strongly supports the formation of a Water Services Ombudsman to assist in the enforcement of a code of conduct and to promote, by compulsion if necessary, the resolution of complaints against a provider subject to the scheme. WACOSS firmly recommends that such a scheme be conducted independently of the Department of Water, to ensure the impartiality and independence of the Ombudsman<sup>19</sup>.

### ***8. Restricted Connection of Water Supply is Unacceptable***

Currently, the Water Corporation utilises water flow restrictions as a debt management mechanism. This credit management approach is not supported by WACOSS in its negative social effects by way of health outcomes as well as general, societal access and inclusion for those families and individuals affected represent a regressive approach in terms of social equity.

The use of water supply restriction as a debt management tool by the Water Corporation has a range of serious negative health and social impacts. Emergency Relief agencies report that families with restricted supply have insufficient water for bathing or laundering<sup>20</sup>. As a consequence, children may be reluctant to attend school for fear of being stigmatised, and in some cases children have been excluded from school all together due to poor hygiene<sup>21</sup>.

WACOSS recommends further research into the UK model of placing a ban on all disconnections and restriction of supply to consumers as discussed earlier in this submission, and the feasibility of its adoption in Australia.

### ***9. The Application of Interest on Debt by Water Utilities is Unacceptable***

Most major water utilities in Western Australia charge very high rates of interest on overdue debt. The interest is applied as a nominal penalty for non-payment of charges. This penalty occurs in addition to effective disconnection of supply and possible legal action. The application of high rates of interest on outstanding debt places additional financial burden on those who may already be experiencing difficulty in paying the overdue amount as a result financial and other types of hardship.

While energy providers are able to charge interest on debt, they do not do so. The policy of the application of interest on overdue debt by water providers is unacceptable and should be discontinued in the interest of fairness and equity.

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<sup>18</sup> Ibid. p.6

<sup>19</sup> Ibid.

<sup>20</sup> "Would you like a bit of heat with that trickle of Water", WACOSS, 2003.

<sup>21</sup> Ibid.

## Pricing Principles

In its issues paper, the ERA identifies a range of possible pricing plans, including Long Run Marginal Cost (LRMC) pricing, scarcity based pricing, locked-in pricing and Inclining Block Tariffs (IBT's).

In previous submissions WACOSS has made a point of identifying significant concerns regarding the potential equity issues arising from scarcity based pricing arrangements for some residential consumers. Additionally, WACOSS also suggests that scarcity based pricing, if incorporated into current models of billing, would likely have limited effect in delivering price signals to consumers and subsequent reductions in demand during times of scarcity<sup>22</sup>.

Given that households living on lower incomes have a relatively lower rate of discretionary water consumption and therefore a relatively reduced capacity to further conserve water, scarcity based pricing is likely to create additional costs for the households that can least afford them<sup>23</sup>. Additionally, potentially higher rates of non-discretionary use amongst such households would mean that poorer households may be even more vulnerable to increases in price than other households<sup>24</sup>.

Under the current retail billing model, the Water Corporation invoices water consumers in metropolitan areas with bills for volumetric consumption twice yearly. In rural and regional areas served by the Corporation, this may be more frequent at once every four months<sup>25</sup>. WACOSS suggests that the relative infrequency of volumetric water billing significantly reduces the effectiveness of scarcity based pricing to signal the consumer. This is because the consumer may not get billed for several months following the period of scarcity, reducing the association between scarcity and price<sup>26</sup>.

Given that both regarding the efficacy of scarcity based pricing in conveying useful information both to market and to the consumer as well as significant concerns regarding social equity, WACOSS cannot support the adoption of scarcity based pricing.

WACOSS considers that any changes to existing pricing structures and/or the development of new pricing structures must guarantee access to an affordable level of water for all households.

WACOSS supports the effective differentiation between very high residential users and lower water users, as currently promoted by the Authority with regards to Inclining Block Tariffs (IBT's). WACOSS generally supports the approach that there should be a tariff block, within any pricing regime, that should accommodate non-discretionary water usage at an affordable rate. The ERA's suggestion of customers purchasing a given entitlement (250kL per year) at a relatively reduced price; with significant penalties should consumption exceed this amount is supported by WACOSS, however WACOSS asserts that this approach must take into consideration larger families, who may be disadvantaged by this pricing system.

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<sup>22</sup> *Response to the ERA Issues Paper, Inquiry on Competition in the Water and Wastewater Service Sector*, WACOSS, August 2007.

<sup>23</sup> *Ibid.*

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*

Inclining tariff structures have the capacity to disproportionately impact on larger families and high-occupancy households where there is a limited capacity to further reduce water consumption. WACOSS asserts that tariff structures should not disproportionately impact on larger households. Government subsidies, concessions and other methods should be used to bring the impact of water pricing on this group in line with other sections of the community

**Are current CSO's consistent with the objectives sought by government? &**

**Are current CSO's value for money or should they be modified in some way?**

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Community Service Obligations (CSO's) form a significant component of the social policies of all Australian governments. A CSO is defined as 'a socially-based program that a business entity carries out, at the direction of the government, which could not be justified solely on commercial grounds<sup>27</sup>'. It is difficult to comment on whether or not current CSO's are consistent with the objectives sought by government, as these objectives are not clearly stated or easily accessible.

Concessions currently available to people living in Western Australia are often provided to promote specific goals. However the desired outcome of concessions and rebates are often not well defined, or else are not publicly advertised. For example, a concession on fixed and consumption water charges is currently available to customers with a state seniors, state concession or senior pensioner health care card<sup>28</sup>. On the Water Corporations website, whilst the eligibility for the concession is well explained, there is no statement as to the intended purpose of the concession or indication as to what government policy is served by the concession<sup>29</sup>

Prior to further examination and discussion regarding the appropriate role of government concessions and rebates in promoting government objectives and the framework which should underpin their administration and management, it is important to consider some of the implicit goals of the concessions and rebates currently available.

Some concessions and rebates are intended to promote certain types of behaviour, for example, rebates on rain water tanks. This public benefit is predominately environmental, where these changes to behaviour will hopefully result in greater resilience for residential water consumers in the case of declining water resources<sup>30</sup>. In cases such as this, the concession or rebate is implicitly targeted at consumers who have the resources to cover the remaining, or upfront costs required to achieve the behaviour change<sup>31</sup>.

The service required to be delivered to the community through the Water CSO and the specific social objective it is designed to achieve should be clearly specified by

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<sup>27</sup> Government of Western Australia, 'Community Service Obligations Policy in Western Australia', Treasury Department, April 2000.

<sup>28</sup> Review of the Administration and Management of State Government Concessions, WACOSS, November 2007.

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

Government. The provision of non – commercially viable services to the community by choice rather than in response to a direct obligation or requirement is not considered to be a CSO.

Water CSO's should be transparent. Transparent funding of water CSO's provides clarity and, by acting directly, reduces the distortionary impact on the water market. The cost of providing the CSO will also be evident. The implementation of water CSO's should be regularly reviewed by Governments to ensure that the CSO continues to effectively target those in need and that it is being delivered efficiently.

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**Should discounts be provided for non-discretionary water usage, such as the first 150kL of annual water usage?**

As stated by the Department for Communities, concessions are “designed to reduce the cost of regular household bills, as well as enable access to essential services”. In its issues paper, regarding the *Review of the Administration and Management of State Government Concessions*, The Department of Premier and Cabinet indicates that the provision of concessions are one method by which the government may improve the well being of people living in Western Australia<sup>32</sup>.

WACOSS support discounts targeted at those consumers who are on lower incomes, for the purposes of social inclusion. WACOSS estimates that over 25% of Western Australians (approximately 522 979 people) rely on the concessions available through the provisions of the Health Care Card and Pensioner Card<sup>33</sup>. These concessions are a vital component of the support required by financially disadvantaged members of the community and allow individuals and families to engage more fully in both economic and social activities necessary to support a reasonable quality of life.

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**Should very high volume water users pay a penalty rate?**

WACOSS supports the idea of very high volume water users paying a penalty rate. Excessive water consumption increases the total amount of water consumed, placing upward pressure on infrastructure investment for treatment and carriage, resulting ultimately in increased water tariffs for all consumers. While price signals exist as a blunt demand management mechanism, it is fair to say that low volume consumers place less upward pressure on water prices than higher-volume consumers.

Excessive water use by some, impacts significantly on the overall availability of water for others. When water becomes more scarce, the price of water is increased, with all customers bearing this cost regardless of their own consumption levels. WACOSS does not view this to be a fair or transparent way of addressing the issue of water scarcity and suggests that further steps needs to be taken in dealing with high volume water users.

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<sup>32</sup> Ibid.

<sup>33</sup> Australian Bureau of Statistics (2007) 2003-04 Government Benefits, Taxes and Household Income, Cat No. 6537.0, p. 55.

With this in mind it is important however, to recognise that households should not be penalised if there is a legitimate reason for excessive water use. There needs to be a mechanism for which high occupancy households are not penalised, so as to ensure equity. There should also be exemptions for people with special health conditions.

In a previous submission WACOSS has recommended that greater equity in the delivery of concessions could be achieved through the development of a concessions policy unit<sup>34</sup>. WACOSS recommends that a key role of a concessions policy unit should be to formulate and monitor a Cost of Living Index that should take into account factors beyond just those which determine the Consumer Price Index (CPI), and use this index to inform monetary and social policy<sup>35</sup>. A Cost of Living Index would track price changes and the impact this has on the budgets of low income households. Such an index would provide invaluable information for assessing the effectiveness of State Government concessions and rebates in reducing pressure on household budgets. It would also assist in identifying priority areas for the development of new concessions<sup>36</sup>.

WACOSS agrees with the ERA's concerns that penalty rates for very high volume users may not achieve efficiency objectives and suggests that in addition to paying a penalty rate, excessive water users may be subject to other measures, such as outdoor water restrictions. This may prove to be a more effective demand management strategy for those users who have a high income and are not adversely affected by paying a penalty rate.

### **Should demand restrictions and other demand management measures continue in the metropolitan area given the construction of the second desalination plant?**

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The 2001 implementation of two-day-a-week water restrictions for the Integrated Water Supply Scheme has seen around 45 gigalitres (45 thousand million litres) of water saved each year<sup>37</sup>. Given this success it was decided that watering rosters should become a permanent feature of water management in Western Australia. Water restrictions conserves water and energy, and promotes the use of water wise and native gardens<sup>38</sup>

Given that water restrictions target non essential use of water such as garden reticulation, swimming pools and hosing down paved areas, paths, roads and buildings, WACOSS proposes they continue as they promote a culture of water conservation, and asserts that they are a more effective demand management tool than using increased tariffs as price signals.

There are large financial and environmental costs to the construction and operation of desalination plants. While WACOSS recognises that desalination plants are a measure of producing a public potable water supply, WACOSS does not support reliance on desalination as a source of all future potable water. Taking into consideration the large

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<sup>34</sup> Review of the Administration and Management of State Government Concessions, WACOSS, November 2007.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> The Water Corporation Website, [http://www.watercorporation.com.au/R/restrictions\\_index.cfm](http://www.watercorporation.com.au/R/restrictions_index.cfm), accessed on 02 September 2008.

<sup>38</sup> Ibid.

amount of energy required to operate the plants, the creation of undesirable green house gas emissions and other detrimental impacts on the environment, WACOSS believes that desalination plants should be used as a source of last resort.

WACOSS believes that demand restrictions will reduce reliance on the desalination plants; which in turn will reduce green house gas emissions and associated carbon costs to consumers, as well as delaying the need for new water infrastructure. Demand restrictions will also reduce additional environmental costs which should also be factored into any future water source.

### **Should tariffs be adjusted to take into account any environmental externalities and if so how?**

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WACOSS asserts that water resources should only be used in a way that ensures sustainable supply. This means limiting the use of water resources that are either slow to replenish or non-renewable, ensuring resource sustainability in the likelihood of reduced future levels of rainfall. Additionally, the use of water resources should not impact on environmental sustainability by:

- Damaging the environment through reduced environmental water inflows.
- Create unnecessary carbon emissions in its extraction/processing, contributing to global warming.
- Changing local microclimates in such a way that reduces future rainfall.

WACOSS recognises that sustainable water supplies are sometimes more expensive than some, more damaging alternatives, however, the social and economic costs of environmental damage will prove to be more detrimental to consumers in the longer-term.

The impact of water projects on the environment can be significant and while it is difficult to put a dollar value on it, WACOSS believes that it is necessary in order to promote the sustainability of water resources. Any tariff design used to take into account environmental externalities must take into consideration people experiencing financial hardship.

### **Are there any issues specific to each utility that warrant particular attention?**

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The ERA has identified two sets of issues that it intends to investigate; WACOSS supports further investigation into both issues. The first being that, The Water Corporation has one of the lowest operating costs for wastewater services, yet they have the highest wastewater bills for a typical residential household.

The second is the billing frequency for water services. The Water Corporation currently bills its customers twice per year for water consumption and once per year for the annual service charge. WACOSS asserts that more frequent billing for water consumption

would improve price signalling to customers, particularly those on low incomes or experiencing financial hardship.

## **CONCLUSION**

WACOSS thanks the ERA for the opportunity to respond to its Issues Paper regarding tariffs of the Water Corporation, Aqwest and Busselton Water.

WACOSS has asserted that the right to water for non-discretionary use - such as for hygiene and nutrition – is essential. Given the special status of this resource, WACOSS also contends that it should remain the responsibility of the State to ensure that people continue to be able to access water for non-discretionary use, in an affordable manner, regardless of any changes to tariff design.

While WACOSS recognises that current water prices do not accurately reflect the entire cost of water provision, for example environmental externalities, WACOSS sees it as being imperative that in considering tariff design and pricing, the impact of various regimes on consumers be addressed.

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