



CONSUMERS SA

[CONSUMERS' ASSOCIATION OF SOUTH AUSTRALIA INC.]

Member of Consumers' Federation of Australia Inc.

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Essential Services Commission of South Australia
Level 1, 151 Pirie Street
Adelaide SA 5000

RE: INQUIRY INTO REFORM OPTIONS FOR S.A. WATER'S DRINKING WATER AND SEWERAGE SERVICES - DRAFT REPORT

Background

Consumers SA (CSA) thanks ESCOSA for the opportunity to provide input into its Draft Report on Reform Options for SA's Drinking Water and Sewerage Services. We are a community based, non-profit organisation that represents consumers' interests, encourages the dissemination of information on issues affecting consumers, provides a forum for discussion of those issues and advocates to all levels of government.

While Consumers SA welcomes the majority of the recommendations made in the draft inquiry report we are concerned that the inquiry's seriously unbalanced terms of reference have compromised its major recommendations.

CSA's policy agenda for 2014 has three key themes:

1. consumers should be placed at the centre of all decision-making that affects their interests
2. consumers should have ready access to information, advice, assistance and avenues for dispute resolution
3. specific problems in particular industries should be fixed.

A robust market economy produces outcomes that are in the interests of all consumers. South Australian legislation acknowledges the primacy of protecting the long-term interests of consumers with respect to the price, quality and reliability of essential services. CSA believes that all possible mechanisms both

within and outside government should be strengthened to achieve this fundamentally important legislative goal.

A serious flaw in this inquiry lies with its terms of reference, which are based solely upon economic issues. While recognising that ESCOSA must adhere to those terms, it is not of benefit to consumers to exclude other important issues such as the protection of the environment and the social consequences of taking such a narrow approach.

It is also a serious flaw that, while the economic consequences of a sudden widespread decrease in combined household spending (that will inevitably follow the report's recommendations on efficient pricing) are acknowledged in the report, the economic impact of the environmental costs that may flow from other recommendations are not considered at all. Therefore it is doubtful that the draft recommendations are as economically viable as they appear.

Principle of cost reflectivity

The purchase price of a product includes production costs plus a profit margin. Utilities, however, are treated differently.

When essential utilities are in government hands there is a sense of security that, especially in times of national emergency, provides a degree of comfort for all citizens. This comfort disappears when utilities are sold to private enterprise whose main concern is ensuring ever-increasing profits with apparently little, if any, concern for the difficulties that such demands make on consumers.

If private enterprise expenditure on infrastructure does not result in increased profits, for example from falling demand for their product, the public is then called upon to make up the difference - as is currently happening in the privatised electricity sector. User pays – again and again. This can apply even though the particular entity is making substantial profits.

This happened with SA Water when its revenue dropped as a result of the drought and people taking seriously the need to conserve water. As water usage dropped, fixed charges were substantially increased.

Another flaw which governments seem incapable of understanding is that while each inquiry pertains only to a specific sector such as water, gas, energy, etc., increases are occurring in every sector. Consumers are having to deal with all those income-depleting cost increases, plus other increases such as those in the latest federal budget, including the cost of fuel, a visit to the doctor, their children's education and, in some cases, decreases in pensions or other payments. Added to this are increases in council rates. Local Councils are now beginning to see an increase in unpaid bills. In one council, Mitcham, unpaid rates have increased from \$1.06 million in June 2012 to \$1.3 million in June 2014⁽¹⁾.

If the Inquiry was to take into account the true economic impact on the community, rather than to SA Water in isolation, a much different set of recommendations might have resulted.

An article in *The Advertiser* of 27 July 2014, by Sheradyn Holderhead stated that a '...staggering 24,000 South Australians have unpaid water bills totalling

\$30million.’ That figure was to November 2013 and has now, no doubt, increased.

A quote from Family First MLC Robert Brokenshire, from the same article stated, ‘this shows bill are rising and people aren’t coping. SA has the most expensive water prices in Australia and household budgets aren’t stretching far enough to deal with the strain. SA Water made a before tax profit of \$362 million last year. It is now a fundamental revenue raiser for the State Government when the intent should be to provide sewerage and water to community. Its hurting people big time because the cost is exorbitant. Its unfair because they have no alternative to use S.A. Water products - you have to go to the toilet, have a shower and drink water⁽²⁾.

Consumers SA cannot support the thrust of the recommendations because of the Inquiry’s narrow terms of reference - which look exclusively at economics and exclude basic and fundamental issues such as fairness, environmental impact and the undoubted social impacts.

In addition there is no detailed information as to how and when these recommendations would be implemented should the government accept them.

When all of these issues are considered it is difficult to ascertain the real impact of the recommendations on consumers - and whether they could or should be supported at this time.

Comments about specific draft recommendations

Drinking water usage and supply charges

It is recognised that the marginal cost to SA Water of supplying drinking water has fallen since the commencement of the Desalination Plant, and that SA Water’s current usage charges do not reflect that lower cost. However it has been claimed that, if usages charges were reduced to reflect the true cost of supplying drinking water, supply charges would need to increase significantly - assuming SA Water recovers the same amount of revenue.

This would lead to bill increases for most *residential* consumers, while large water users may receive lower bills. In essence most residential consumers would pay more - unless they were very large water users, in which case there would be no incentive to conserve water). In fact it could be argued that lowering the cost of supplying water is a disincentive to saving it.

That the majority of consumers will be paying even more is not just, and consumers would be better off with the more expensive three-tiered approach for the water usage and a less expensive fixed cost for the supply of water as is currently the situation.

CSA supports the thrust of the draft recommendations (4, 5, 6 and 7) in relation to capacity-based supply charges depending upon the size of the water meter which measures a customer’s capacity requirements, rather than the present supply charge based on the value of a property. This should apply to regions as well.

As our constituents are primarily city based, we leave comments on the regional recommendations to those living and working in the regions, whose needs may vary considerably from one area to another.

CSA also supports recommendation 19, 'that the end user of a retail service, rather than the owner of the premises to which that retail service is supplied, should be SA Water's customer for that retail service'. If recommendation 19 is accepted, then we also agree to recommendation 20, 'the current provision in the Water Industry Act, which confers on SA Water the right to secure debts through a statutory charge on land, and the right to sell land to satisfy a debt, should be repealed.'

Non connected properties

CSA agrees that customers who choose not to connect to SA Water's network should not be required to pay a fixed charge to SA Water and we therefore support draft recommendations 21 and 22.

Individual metering

Draft finding No. 17 states the costs of installing water meters to all properties that are currently not metered would outweigh the associated benefits. However Consumers SA's experience with consumers in some group-metered properties would indicate that this has caused problems. While it is acknowledged that retrofitting individual meters to established properties is difficult, a recommendation that they should be fitted to new properties would be appropriate.

Smart metering

This too should be a consumer decision and so draft recommendation 24 is supported.

Water Planning and Management costs

It has come as a surprise to Consumers SA that SA Water is collecting a payment through customers' bills for water planning and management that is not reflected as such on their accounts. In the interests of transparency and providing full information to consumers, this should immediately be rectified. Therefore draft recommendations 25 and 26 are supported.

Implementation and transition issues

Draft finding 20 acknowledges the extra costs that will be incurred for many customers should these draft recommendation be accepted and is the primary reason why CSA cannot at this stage support the changes suggested for water usage and supply charges.

Draft recommendations 27 and 28 ask the government to consider transitional arrangements including a review of concessions and exemptions, but this will not guarantee that consumers will not be worse off. It seems that the majority certainly will be. According to the state treasurer, Mr Tom Koutsantonis, 74% of

all residential customers would be worse off, 88% of all concessional card holders would be worse off, 60% of businesses would be worse off and 56% of all commercial customers would be worse off⁽³⁾.

While Business SA claims that the cross-subsidies currently in place have become a burden for business operators, that is no reason to place the burden back upon those who can least afford it.

In summary, while Consumers SA welcomes some of the recommendations made in the draft inquiry report, we are concerned that the inquiry's seriously unbalanced terms of reference have compromised its major recommendations.

We recognise that ESCOSA was forced to adhere to the terms of reference it was given but other important issues, such as the protection of the environment and the potentially disastrous social consequences of its recommendations cannot be ignored.

Yours sincerely



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2. *Staggering 24,000 South Australians have unpaid water bills totalling \$30m*
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3. *SA Treasurer rejects water and sewerage price changes leaving customers worse off.*
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