



Level 2, 172 Flinders St
Melbourne VIC 3000
Phone: 03 9639 7600
Fax: 03 9639 8966
ACN 100188 752

Level 7, 459 Little Collins Street
Melbourne Vic 3000
Phone: 03 9670 5088
Fax: 03 9629 6898
ABN 37120 056 484 ACN 120 056 484

24 January 2008

Mr Graham Evans AO
Chair
Retail Water Sector
Victorian Competition and Efficiency Commission
GPO Box 4379
Melbourne 3002
By email to water@vcec.vic.gov.au

Dear Mr Evans

This submission is put forward by the Consumer Utilities Advocacy Centre Ltd (**CUAC**) and the Consumer Action Law Centre (**Consumer Action**) in response to '*Water Ways : Inquiry into the Reform of the Metropolitan Retail Water Sector – Draft Report*' released by the Victorian Competition and Efficiency Commission and its inquiry into the reform of the metropolitan retail water sector.

CUAC is an independent consumer advocacy organisation which ensures the interests of Victorian electricity, gas and water consumers - especially low-income, disadvantaged, rural and regional and Indigenous consumers - are effectively represented in the policy and regulatory debate.

Consumer Action is a campaign-focused consumer advocacy, litigation and policy organisation. Consumer Action pursues a law reform agenda across a range of important consumer issues at a governmental level, in the media, and throughout the community and is dedicated to advancing the interests of low-income and vulnerable consumers.

We welcome the opportunity to provide comment to the Victorian Competition and Efficiency Commission inquiry. We support regular reviews of essential service delivery arrangements to ensure that they are being delivered in an efficient manner, which is least cost to consumers.

Access to water is an essential human right. It is also an integral part of the rural and regional economy and vital to the health of the environment. The long-term environmental, social and economic sustainability of this sector has therefore rightly become a high priority for Australian governments.

This submission outlines concerns that CUAC and Consumer Action believe are important for consumers as a basis for maintaining access to water within a restructured water sector, particularly with respect to the interests of low-income and rural households. It addresses the key matters and

issues for consumers raised by the Victorian Competition and Efficiency Commission in its Draft Report.

Structural Reform

The Commission has sought comments on two options put forward for structural reform of the metropolitan retail water sector.

i) Three Retailers with a shared Services Arrangement

The Draft Report put forward an option of establishing shared services among the three retailers for activities such as billing, call centres and information technology. We do not support a potential consolidation of call centre support facilities for customers where it could potentially undermine customer links in terms of relations between customers and retailers, and hinder or cause delays in improvements in customer service. The need for consumers to be able to readily contact customer service for support and advice is important for efficient and reliable ongoing service delivery, especially given significant increase in prices that are expected over the next five years. This is most likely to increase the incidence of customers presenting with financial hardship difficulties.

With potential savings from greater co-operation in shared services and procurement among the three retailers estimated at up to \$5m per year within five years, a payback period of 9-11 years and upfront costs of \$15-\$20m over two to three years, it would not appear to be economic to institute a reform of this nature, although we do recognise the need for restructuring where it can lead to efficiencies that are not at the expense of consumers. The necessity of combining these functions among three retailers is therefore questionable.

ii) A reduction in the number of retailers to two

We recognise the benefits of reducing the number of retailers to two, thereby reducing the disparity in service area size and leading to entities of some similarity in business operations. It will also aid the purposes of comparison and benchmarking. However, estimated annual savings in the order of \$9m - \$14m do not appear significant in the context of the total annual revenues for the sector of \$990m. In many instances, the savings were either not costed or considered to be small or both¹. This is not a sound basis on which reform should be undertaken.

In terms of social impacts, we are concerned that, as noted earlier, a reduction in the number of retailers will lead to a possible diminution of contact between the retailers and customers, and a decline in service and support provided to customers experiencing financial hardship. Such an arrangement may also contribute to difficulties in identifying customers who are at risk of experiencing difficulties and therefore providing timely and suitable assistance. We therefore do not support an arrangement in which customer service and the quality of support is jeopardised due to a restructure that may not provide significant cost savings, unless resources are provided in the identification and support for such customers.

However, in reducing the number of retailers to two, the present disparity in size between City West Water and the other two retailers could be addressed, as long as the new retail structure results in two entities of similar size in terms of area serviced and customer type. This will enable the continued effective use of competition by comparison and the establishment of a robust but limited form of benchmarking between the two retailers. A form of dynamic efficiency could also be retained under this form of retail structure and enable the development of solutions to common issues.

¹ *Water Ways: Inquiry into Reform of the Metropolitan Retail Water Sector A Draft Report For Further Consultation and Input*, Victorian Competition and Efficiency Commission, (December 2007), p.11.

As highlighted previously by CUAC and Consumer Action², Yarra Valley Water has developed a sophisticated consultation model and assistance program for customers experiencing financial hardship. A variety of initiatives have been developed including flexible billing arrangements and the promotion of water efficiency measures (for example, through the Smart Homes Program). We recommend that a restructured metropolitan water sector model encourage and facilitate water businesses to continue to develop these types of initiatives.

We believe the approach undertaken over the last several years by Yarra Valley Water in relation to customers experiencing financial hardship assistance and customer consultation to be exemplary in this regard in the support provided and customer links that have been established and maintained. These programs have been assisted and improved over time through advice received in its annual customer services workshops conducted by Yarra Valley Water. Hardship assistance programs play a vital role in ensuring that low-income and vulnerable consumers maintain access to supply.

Although there may not be technical or policy implementation risks in the move to a two retailer structure, we are concerned about equity considerations at the possible cost pass-on of transition costs that have been put forward in the range of \$38m to \$63m. These should not be borne by low-income and disadvantaged consumers as they are already facing the prospect of an annual price increase for water and wastewater services in the order of 14.5% each year to the year 2013 combined with a multitude of other household expenses that are affecting affordability.

Consultation

As earlier indicated, we believe that customer consultative committees and other formalised liaisons between the water companies and stakeholders serve as effective and ongoing mechanisms to ensure continuous improvement to the water businesses service delivery.

In a study undertaken by Consumer Action into water reform in Victoria and outcomes for consumers³, it was found that the nature and content of customer consultation varies considerably among water businesses. The study noted that many water businesses were unclear about how consultation was undertaken with low income and disadvantaged consumers and their representatives.

We strongly believe that guidance should be provided to water businesses in developing and maintaining consultative mechanisms that offer informed and representative input.

Performance of the Retail Sector

Competition by Comparison

In our view, competition by comparison has contributed to service improvements and innovation among the metropolitan water businesses and CUAC and Consumer Action believe that a robust form of competition by comparison should be retained in a restructured metropolitan retail water sector.

The findings of the annual Water Performance Report produced by the Essential Services Commission are valuable in this regard and have enabled us to point to areas of performance and outcomes that are in need of improvement or strengthening by businesses. Among others, these areas include indicators

² Consumer Utilities Advocacy Centre and Consumer Action Law Centre, *Submission in Response to Issues Paper : Inquiry into Reform of the Metropolitan Retail Water Sector(VCEC)*, 12 October, 2007, p.2 Available at <http://www.vcec.vic.gov.au/CA256EAF001C7B21/0/C080BF5F2D219465CA257369000E99EC?OpenDocument>

³ Consumer Action Law Centre, *Water Reform in Victoria – Independent Pricing Regulation and its Outcomes for Consumers*, (March 2007), p. 58. Available at <http://www.consumeraction.org.au/publications/policy-reports.php>

of the number of customers placed on instalment plans or service restrictions, and complaints in relation to water quality and affordability.

Benchmarking

Despite some often inherent limitations, benchmarking provides a useful means by which comparisons can be made among the businesses and we support the development of benchmarks to aid the analysis of comparative performance. It performs a crucial monitoring tool and ensures the sector does not settle over time on inappropriate or unsustainable performance levels in key areas which in turn can have adverse implications for consumer service.

Performance Reporting

We acknowledge the possible shortcomings that can exist in making comparisons between water businesses because of different conditions under which they operate, and the corresponding need to ‘control’ for differences when making comparisons.

Nonetheless, we strongly support public reporting of the performance of water authorities. Transparency and public reporting contribute to informed consumer advocacy, which in turn enhances the regulator’s decision-making processes. Robust performance reporting and regulatory audits are crucial tools to detect and highlight service deficiencies.

We strongly believe that, under a restructured metropolitan water sector, water authorities should be required to report on a range of indicators to:

- demonstrate compliance with Customer Service Codes and other regulatory requirements;
- enable performance assessments of hardship policies and programs; and
- indicate the extent to which they are meeting environmental objectives.

As water authorities are publicly owned, it is in the public interest that information be readily available about their performance, particularly as they are monopoly entities providing an essential service. It follows, therefore, that information on performance outcomes of the water utilities should also be freely and easily available to the public. This will not only serve to underline the transparency and accountability of the water authorities, but – as has been clearly demonstrated in Victoria - provides a very effective driver to improve performance through competition by comparison.

Contestability Initiatives

Access Regime

CUAC and Consumer Action are supportive of measures that will strengthen contestability within the utilities sector. In order to further the potential benefits of contestability, an access regime could play a significant role although we view it relating, in the main, to ‘upstream’ infrastructure development, wastewater and recycled water undertakings with longer term ‘downstream’ benefits accruing to customers.

However, the process to determine the pricing methodology to be used in an access regime must be one in which the views of all relevant stakeholders are sought and ensure prices are cost-reflective and efficient without impacting adversely on affordability for customers.

We only support development of third party access with public and transparent consultation in its development and operation. Any third party access regime will require appropriate consumer

protections to be in place, including a requirement on parties to comply with relevant Customer Service Code requirements and price protections.

In addition, the implementation of a State-based regime is supported where it avoids the implementation of an *ad hoc*, piecemeal and costly system or might occur under the Trade Practices Act. As found by the West Australian Economic Regulation Authority, any State-based third party access regime should be supported by sound and transparent regulation to ensure that access arrangements are safe, efficient and achieved at minimum cost⁴.

Finally, in face of the possible benefits to arise from such a regime, we would not want to see the eventual privatisation of the water sector in Victoria. The Victorian Government is committed to the public provision, planning and management of water and wastewater services and the State Constitution mandates that the ownership of water businesses stays with the Victorian Government. We strongly support this principle. Government ownership of water businesses has the support of the Victorian public, and any modification of this principle should be open to transparent and public debate.

If you wish to discuss any matters raised in this submission, please contact either James Henshall, Consumer Utilities Advocacy Centre (03) 9639 7600 or Gerard Brody, Consumer Action Law Centre on telephone (03) 9670 5088.

Yours sincerely



James Henshall
Policy Officer
Consumer Utilities Advocacy Centre



Gerard Brody
Director - Policy and Campaigns
Consumer Action Law Centre

⁴ Economic Regulation Authority, Western Australia, 'Draft Report Inquiry on Competition in the Water and Wastewater Services Sector' p. 65.