

THE FUTURE OF TOWN WATER PRICING

WORKSHOP SUMMARY AND OUTCOMES

Introduction

On 2 September 2005 the NSW Local Government and Shires Associations convened a workshop on the future of town water pricing. The workshop was one of three organised by the Associations as part of their Annual Water Management Conference, which this year was held in Narrabri. Dr Martin van Bueren from the Allen Consulting Group was engaged to facilitate the workshop.

A three-member 'expert panel' served as a reference point to answer participants' questions about various issues. The panel comprised:

- Sam Samra from the Department of Energy, Utilities and Sustainability (DEUS)
- Wayne Beatty, Water Manager from Orange City Council; and
- Carmel Krogh, Water and Sewerage Manager from Eurobadalla Shire Council.

The objective of the workshop was to come to a shared understanding of the challenges facing council owned water utilities over the next five years and to seek out from participants what strategies could be pursued by the Associations to assist councils in managing these changes and/or developing policies to take to the NSW government.

This report summarises the main points of discussion raised on the day.

Key challenges

The workshop commenced with short presentations by Martin van Bueren and each of the panel members. These presentations gave an overview of several water pricing issues, including:

- Bulk water pricing – recent price increases determined by the Independent Pricing and Regulatory Tribunal (IPART);
- DEUS proposal for an integrated water and sewerage charge;
- DEUS's requirement that all council water utilities adopt two part tariffs for water, with a 75 per cent usage charge component; and
- Reduced funding to utilities through the Country Towns Water Supply and Sewerage Program.

Discussion around these issues predominantly focussed on the requirement for council owned water utilities to adopt water tariffs with a high usage component. There was a diversity of views about the scale of challenge that this represents to councils. Some councils were very concerned about the new tariff structure, stating that it would:

- greatly reduce their revenue stability;
- cause commercial water users to exit town – unless price subsidies were offered;
- impact on vulnerable customer groups such as large families and pensioners.

A theme emerged that one pricing policy does not fit all circumstances. For instance, Eurobadalla Shire Council pointed out that a large proportion of its residential customers were permanent residents of Canberra and only visited the Eurobadalla region in holiday periods. Their capacity to recover revenue through usage charges is therefore limited because of the highly seasonal pattern of demand. Some shires from drier locations in the West of the State noted that per capita residential water consumption for basic needs was much higher than in coastal areas because of the hotter summers. They argued that recovering most costs through a usage charge would penalise families with pools and evaporative air-conditioners, which are more common household items western townships owing to the heat.

But not all participants agreed with view that usage charges were problematic. Several councils, who have been using two part tariffs with a 25:75 fixed to variable component for several years, claimed that from their experience, pricing is effective as a demand management tool. It has allowed supply augmentation works to be delayed and revenue fluctuations have not been a major problem, provided that conservative budgeting is undertaken.

Some participants were curious as to why IPART was advocating a bulk water tariff structure of 60:40 fixed to usage, while DEUS was advocating a 25:75 split. There was no resolution to this issue at the workshop.

There appeared to be an acceptance among participants that higher volumetric charges were 'here to stay' and that the principles laid out in the National Water Initiative would eventually be brought to bear on council owned water utilities.

The other issues introduced at the commencement of the workshop — that is, bulk water charges and funding levels under the Country Water Supply and Sewerage Program — drew fewer comments from participants. The recent increases in bulk water prices following the 2005-06 pricing determination did not rank as a major issue among participants. However, there were many questions to Sam Samra (DEUS) which sought to clarify the intent and content of the integrated water/sewerage pricing policy.

Strategies the Associations could pursue

On the basis of the workshop discussions, there are several strategies that the Associations could pursue to assist council-owned water utilities to meet future challenges presented by water pricing reform:

- It is apparent that there is a reasonable degree of confusion among some utilities about integrated pricing and how it may apply to them. Put simply, not all aspects of DEUS's proposal are understood. The Associations could assist councils by preparing fact sheets in conjunction with DEUS to explain the intent and proposed

'rules' of integrated pricing, and to advise DEUS on particular concerns faced by individual utilities.

- From the workshop discussion it is clear that there is a view that DEUS pricing policies are too rigid, particularly with regard to the 75:25 rule for two part tariffs. A possible strategy for the Associations would be to assist affected councils to demonstrate to DEUS situations where one policy does not fit all water utility businesses. In some cases there may be justification for special provisions and/or exemptions to be made.
- Given that there are quite a few councils that have made the transition to tariffs with a 75 per cent usage component, it could be worthwhile for the Associations to prepare some case study material on the experiences of these councils. These case studies could help to shed light on how adjustments can be made to the water/sewerage business to cope with the price reforms, which would be of benefit to those utilities that are struggling to come to terms with the DEUS pricing guidelines.