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26th March, 2003.

THE EXECUTIVE DIRECTOR,
NATIONAL COMPETITION COUNCIL
GPO BOX 250 B
MELBOURNE VIC. 3001



SUBJECT: 2003 WATER ASSESSMENT

YOUR COUNCIL'S 2003 WATER ASSESSMENT WILL EXAMINE URBAN PRICING REFORMS INCLUDING (AMONG OTHER THINGS) CONSUMPTION BASED PRICING.

I ENCLOSE A SUBMISSION FROM THE VIEWPOINT OF A RESIDENTIAL RATEPAYER WHOM PRICE REFORMS OF THE 1990'S WERE MEANT TO ASSIST.

Yours faithfully.
G Hodges
(GRIFFITH HODGES).

NATIONAL COMPETITION POLICY AND URBAN WATER PRICING REFORM

A Residential Ratepayer's Perspective on Consumption Based Pricing at The Gold Coast 1988-2003

SUMMARY

THIS SUBMISSION EXAMINES THE RECORD OF GOLD COAST CITY COUNCIL (GCCC) WITH REGARD TO WATER PRICING REFORM URGED BY THE FEDERAL GOVERNMENT'S NATIONAL COMPETITION POLICY IN THE MID 1990'S.

DETAILED HEREIN ARE WATER COSTS TO RESIDENTIAL HOUSEHOLDS ACROSS THE RANGE OF CONSUMPTION DURING YEARS 1997/8 TO 2002/3, OVER WHICH PERIOD GCCC HAD UNDERTAKEN TO PROCEED TO 'USER-PAYS' BASED WATER PRICING.

WHILE SOME REDUCTION IN UNFAIRNESS/INEQUITY HAS BEEN ACHIEVED, THERE HAS BEEN A FRUSTRATING OF THE INTENT OF NATIONAL COMPETITION POLICY THROUGH A COMBINATION OF - STATE LEGISLATION, GCCC Duplicity/BUREAUCRATIC CONTENTMENT TO PRESERVE A CASH-FLOW STATUS QUO, AND WATER USERS RESIGNED TO AN ANNUAL BATTERING BY THEIR PRICE-FIXING COUNCIL. AT A TIME WHEN SEVERE WATER RESTRICTIONS HAVE BECOME NECESSARY TO COPE WITH DWINDLING WATER RESERVES DURING THE WORST DROUGHT ON RECORD, GCCC'S CONTEMPT FOR THE EQUITY, ECONOMIC, AND ENVIRONMENTAL ELEMENTS WHICH DROVE NATIONAL WATER PRICE REFORM ATTEMPTS IN THE 1990'S IS LAID BARE.

IN PURSUIT OF HUMAN EQUITY GOALS, THE STATE GOVERNMENT MUST ACT WITH AS MUCH ZEAL AS IS DEMANDED FROM IT IN MATTERS OF ENVIRONMENTAL PROTECTION

WATER PRICE REFORM IN 1990'S.

IN THE LATE 1990'S, STATE GOVERNMENTS THROUGHOUT AUSTRALIA RESPONDED TO NATIONAL COMPETITION POLICY BY MANDATING A VARIABLE CONSUMPTION COMPONENT IN ASSOCIATION WITH A FIXED SERVICE COMPONENT IN WATER USAGE CHARGES MADE BY LOCAL GOVERNMENT AUTHORITIES. SUCH LEGISLATION WAS DRIVEN BY FAIRNESS AND EQUITY, ECONOMIC EFFICIENCY, AND ENVIRONMENTAL CONSIDERATIONS, AND THE REFORMS WERE TAGGED WITH THE DESCRIPTION 'USER-PAYS WATER PRICING'. HOWEVER, THE DESIRED QUANTUM OF CONSUMPTION AND SERVICE COMPONENTS WAS NOT SPECIFIED IN QUEENSLAND LEGISLATION, NOR ANY TIME FRAME FOR ACHIEVEMENT OF MEANINGFUL TARGETS.

AT THE GOLD COAST, THE NEED FOR WATER-PRICE REFORM WAS CLEAR IN 1998.

Fairness and Equity

In 1997/8 a charge of \$274 entitled each residential household to use up to 340 KL of water annually, and additional usage attracted an 'excess water' charge per KL; such entitlement actually exceeded what was used in 80 percent of households so, depending on one's perspective, either most households were paying for water not used, OR low-volume households were paying a vastly higher price for each drop of their water than were high-volume households.

Economic/Environmental

Overgenerous use in the fastest-growing population region in Australia, and the infrastructure costs of providing consequent reserves via extension of Hinze Dam provided powerful incentive in such a dry continent to engineer water conservation via user-pays pricing. Environmentally, the more the need for water storage, the greater the damage to the natural habitat of threatened wildlife species.

NOT ONLY WAS THE NEED FOR REFORM CLEAR — THE NEED FOR USER-PAYS WATER PRICING AT THE GOLD COAST WAS ACKNOWLEDGED BY GCCO, THE LOCAL WATER PROVIDER.

"Why do we need to change the way we pay for water? Answer: Make sure one group of ratepayers does not subsidise another: —

- at present about 85 percent of people do not use their allocation of water, yet they pay for a fixed amount. These people are subsidising those who use more than their share.
- the new payment principle is user-pays. Everyone will pay only for what they actually use //

Residents Information Sheet.
Issue 10. 1st Feb, 1998

"the introduction of user-pays based water pricing over the next few years will reduce everyone's water use by another 5-10 percent and delay the need for Hinze Dam Stage 3 until 2025 at least"

Gold Coast Water Pamphlet
'Know what you use - Know what you pay'
NEW YEAR 1998

SUBSEQUENT RESPONSE BY GOLD COAST CITY COUNCIL

IN THEIR 1998/9 BUDGET DELIBERATIONS, GCCC COUNCILLORS ELECTED TO INTRODUCE WATER REFORM PROGRESSIVELY IN 5 STAGES WITHIN 5 YEARS, AND SELF-ASSIGNED TO THEIR APPROACH THE TITLE '5 STAGE PATH'. HOWEVER, NO ENDPOINT GOAL WAS STATED BY COUNCILLORS OR PROFESSIONAL OFFICERS EITHER AT THE OUTSET OR AT ANY STAGE ALONG THE '5 STAGE PATH'.

APPENDIX I SHOWS ^{RESIDENTIAL} WATER CHARGES BEFORE REFORM WAS COMMENCED, AND CHARGES AT EACH STAGE ALONG THE '5 STAGE PATH'.

APPENDIX II DETAILS EFFECTIVE WATER COSTS PER KL ACROSS THE RANGE OF HOUSEHOLD CONSUMPTION FOR EACH YEAR 1997/8 to 2002/3.

APPENDIX III GRAPHICALLY REPRESENTS THE COSTS AS DETAILED IN APPENDIX II.

APPENDIX IV SHOWS ACROSS THE RANGE OF CONSUMPTION THE WEIGHTING TO CONSUMPTION COMPONENT IN THE TOTAL WATER BILLS (RESIDENTIAL) AT THE END OF THE '5 STAGE PATH' COMPARED TO PRE-REFORM.

THE RECORD SHOWS THAT

- Stages 1 and 2 were essentially steps up and down on the same spot, with

retention of a maximum water allowance still exceeding at step 2 the water consumed in 70 percent of households and demonstrated with much fanfare in a 'Water Wise' PROGRAM to be sufficient for a family of 6.

- In 2000/1 (step 3) a 2-tier variable consumption component appeared for the first time, tier 1 of which was at such a triflingly low level that the average house needed to halve its water consumption to achieve a saving of 40 cents/week
- In 2002/3 (The end of the '5 stage path')
 - the variable consumption component represents less than 50 percent of the total water charge for the average household (200 KL) and less than 30 percent of the ^{total} charge for those in the lower quartile of water use (< 100 KL).
 - the effective price per KL for households in the lower quartile of water use is upwards of 2 times that paid by the top quartile (compared to 3 times, prior the '5 stage path')

ALL THE WAY ALONG THE '5 STAGE PATH' GCCC UNREMITTINGLY MAINTAINED ITS FAIRNESS/EQUITY RHETORIC.

— Refer APPENDIX V

CONCLUDING COMMENTS

IT IS TRUE THAT AT THE END OF THE 'S STAGE PATH' SOME REDUCTION IN INEQUITY AND UNFAIRNESS HAS BEEN ACHIEVED. BUT DEFENCE OF GOLD COAST COUNCIL'S PERFORMANCE COULD ONLY BE A 'THANK HEAVENS FOR SMALL MERCIES' PLATITUDE.

TO CLAIM PERVERSION OF THE COURSE OF JUSTICE FOR LOW-VOLUME WATER USERS MAY BE EXTRAVAGANT BUT THERE SURELY HAS BEEN A FRUSTRATING OF THE INTENT OF NATIONAL COMPETITION POLICY RE WATER PRICING; THE RESPECTIVE RESPONSES OF STATE GOVERNMENT (IN ITS LOOSE LEGISLATION), AND GOLD COAST CITY COUNCIL (IN ITS DUPLCITY AND BUREAUCRATIC CONTENTMENT TO PRESERVE A CASH FLOW STATUS QUO), AND LOW-VOLUME WATER USERS (CONDITIONED TO BEING BLED-DRY FOR TOO LONG) HAVE COMBINED TO PRODUCE THAT OUTCOME

IF THE LEVEL OF PRICE DISCRIMINATION AGAINST LOW-VOLUME WATER USERS WAS MATCHED AT GOLD COAST SUPERMARKETS OR PETROL STATIONS ALL HELL WOULD DESCEND ON THE PERPETRATORS, AS IT WOULD TOO UPON PETROL COMPANIES WHO ATTEMPTED TO RECOVER THEIR ENORMOUS INFRASTRUCTURE COSTS VIA A FIXED SERVICE CHARGE ON ALL MOTORISTS ACCOMPANIED BY CORRESPONDING REDUCTIONS IN THE VARIABLE CHARGE PER LITRE.

FOR GCCC TO OFFER PRICE REDUCTIONS FOR VOLUME PURCHASE OF A SCARCE RESOURCE, AS IT HAS RIGHT ALONG THE 'S STAGE PATH', AND NOW TO SIMULTANEOUSLY IMPOSE SEVERE WATER RESTRICTIONS TO COPE WITH THE WORST DROUGHT ON RECORD IS AN EXTRAORDINARY STRATEGY. LAID BARE NOW IS GCCC'S TOTAL DISREGARD AND CONTEMPT FOR THE ELEMENTS OF COMPETITION POLICY WHICH DROVE NATIONAL WATER PRICE REFORM MOVES IN THE 1990'S, ELEMENTS WHICH GCCC HAS RHETORICALLY TRUMPETED IN ITS UNREMITTING PUBLIC RELATIONS COMMUNICATIONS TO RATEPAYERS.

CLEARLY, THE HUMAN EQUITY GOALS OF NATIONAL COMPETITION POLICY REQUIRE THAT STATE GOVERNMENTS ACT WITH AS MUCH ZEAL AS IS NOW DEMANDED OF THEM IN PROTECTING COASTAL WETLANDS OR RAINFORESTS FROM THE RAVAGES OF COUNCIL ZONING PROPOSALS.

WHY DOES IT MATTER - A FINAL PLEA !

INDIVIDUAL FREEDOM AND INDEPENDENCE ARE FUNDAMENTAL VALUES WHICH UNDERPIN OUR SOCIETY.

RATEPAYERS ARE ENTITLED TO A SYSTEM WHICH PERMITS EVERYBODY, YOUNG AND OLD ALIKE, TO BE MASTER OF THEIR OWN LIVING STANDARD AND STYLE — A SYSTEM WHICH ALLOWS THEM IF THEY WISH TO DOWNSIZE THEIR REAL ESTATE AND THEIR WATER USAGE etc.etc. TO REDUCE OUTLAYS IN ORDER TO INDULGE INDIVIDUAL INTERESTS IN TRAVEL OR THE ARTS, ENTERTAINMENT, SPORT etc. et. etc. OR ALTERNATIVELY LEAVES THEM FREE TO INVEST MORE RESOURCES AND ENERGIES INTO HOUSE GARDEN AND POOL AND TO MEET THE ASSOCIATED COSTS FREE OF SUBSIDY BY OTHERS; THE THEATRE GOER SHOULD NOT HAVE THE TRAVELLER'S HAND IN HER PURSE TO SUBSIDISE THE PETROL BILL FOR A TRIP AROUND AUSTRALIA, NOR SHOULD THAT TRIP BE SHORTENED SO SOMEBODY'S TROPICAL GARDEN CAN BE CONSTANTLY WATERED.

LITTLE WONDER THEN THAT AGED RATEPAYERS, WHOSE WATER USE TENDS TO BE LOW BY VIRTUE OF SMALLER HOUSEHOLD SIZE, CLAMOUR FOR CONCESSIONS. HOWEVER, THE INEQUITY WHICH INFESTS GCCC WATER PRICING CANNOT BE DISGUISED BY RATE REMISSIONS AND REBATES FOR THE AGED; IF SUCH DRAWING FROM THE CONCESSIONARY-WELL REMAINS AN EXCLUSIVE DOMAIN OF THE AGED, INTERGENERATIONAL DISHARMONY WILL SOON BITE HARD. WHAT A TRAVESTY OF JUSTICE, GIVEN THE FACT THAT A BENEFIT FROM GCCC RATE REMISSIONS TO AGED (40 percent MAX.) IS SIGNIFICANTLY LESS THAN WOULD RESULT FROM REMOVING PRICE DISCRIMINATION AGAINST LOW-VOLUME USERS, BOTH YOUNG AND OLD ALIKE.

APPENDIX IGOLD COAST WATER CHARGES TO RESIDENTIAL HOUSEHOLDS.1997/8 to 2002/3

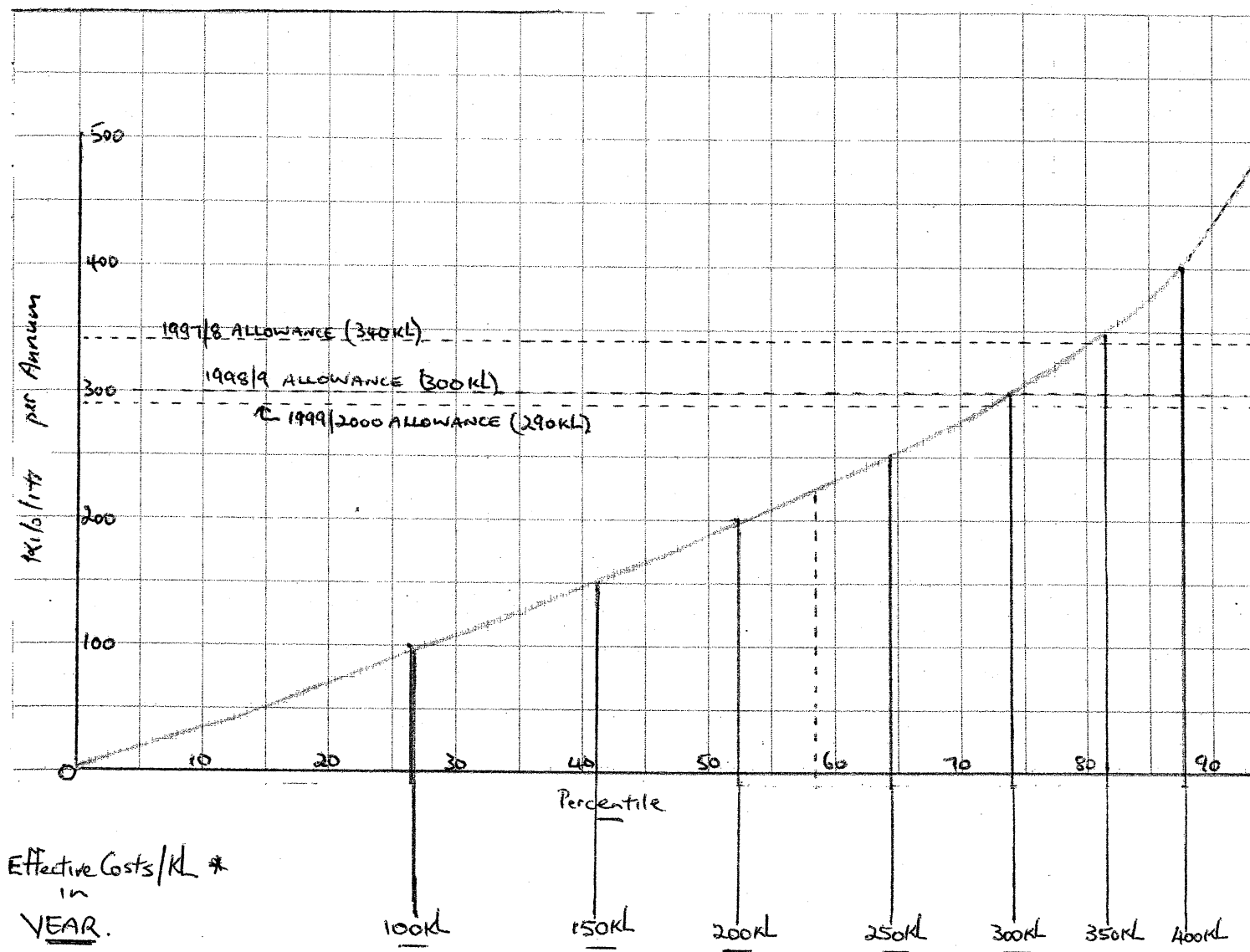
1997/8 (Pre-Reform)	\$274 for an allowance of 340 KL + \$1.00/KL over 340 KL
1998/9 (Stage 1)	\$264 300 KL + \$1.02/KL between 300-340 KL + \$1.30/KL over 340 KL
1999/2000 (Stage 2)	\$259 290 KL + \$1.02/KL between 290-330 KL + \$1.50/KL over 330 KL
2000/1 (Stage 3)	\$238 SERVICE Charge + 16¢/KL between 0-290 KL + \$1.50/KL over 290 KL
2001/2 (Stage 4)	\$173 + 60¢/KL
2002/3 (Stage 5)	\$173 + 65¢/KL

APPENDIX II

EFFECTIVE WATER COSTS/KL ACROSS THE RANGE OF CONSUMPTION 1997/8 — 2002/3

HOUSEHOLD

Range of Consumption
← (Plotted at each 10th percentile) →



Effective Costs/KL *
in
YEAR.

	100KL	150KL	200KL	250KL	300KL	350KL	400KL
1997/8 (Pre-Reform)	\$2-74	\$1-83	\$1-37	\$1-10	\$0-91	\$0-81	\$0-83
1998/9 (Stage 1)	\$2-64	\$1-76	\$1-32	\$1-06	\$0-88	\$0-91	\$0-96
1999/2000 (Stage 2)	\$2-59	\$1-73	\$1-30	\$1-04	\$0-90	\$0-94	\$1-01
2000/1 (Stage 3)	\$2-54	\$1-75	\$1-35	\$1-11	\$1-00	\$1-07	\$1-12
2001/2 (Stage 4)	\$2-33	\$1-75	\$1-46	\$1-29	\$1-18	\$1-09	\$1-03
2002/3 (Stage 5)	\$2-38	\$1-80	\$1-51	\$1-34	\$1-23	\$1-14	\$1-08

* Effective Cost/KL

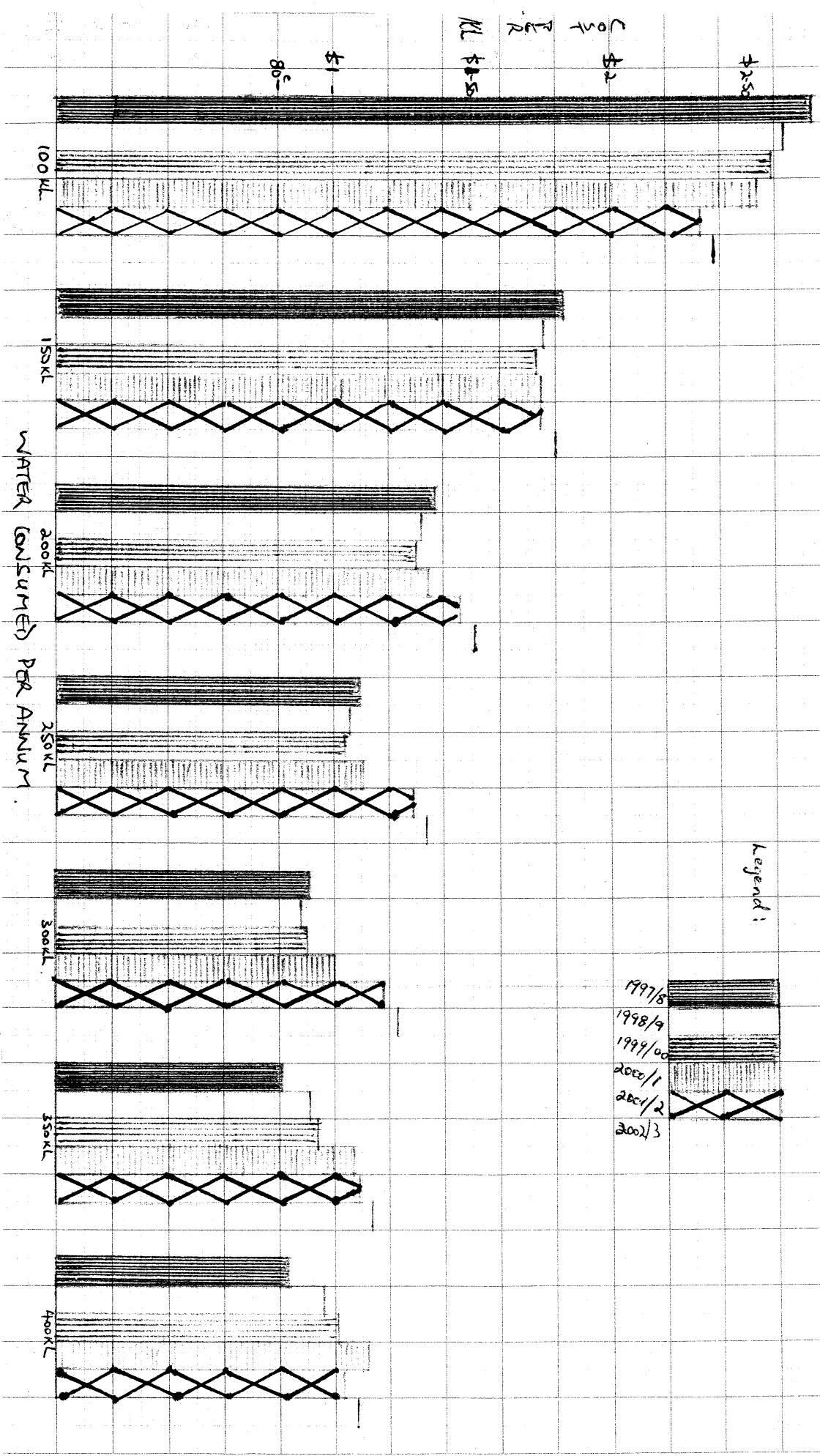
= Fixed Charge

+ Variable Charge/KL x KL (EXCESS TO STAGE 2.
(CONSUMED) STAGES 3-5)

÷ KL (CONSUMED).

APPENDIX III

COST PER KL OF WATER CONSUMED BY RESIDENTIAL HOUSEHOLDS AT THE GEDD CONST
ACROSS THE RANGE OF ANNUAL CONSUMPTION 1997/8 TO 2002/3



APPENDIX IV

CONSUMPTION COMPONENT WEIGHTING IN ANNUAL WATER BILL (RESIDENTIAL)
ACROSS THE RANGE OF CONSUMPTION 1997/8 AND 2002/3

	ANNUAL CONSUMPTION (KL)						
	100KL	150KL	200KL	250KL	300KL	350KL	400KL
1997/8 (Pre-Reform)	NIL	NIL	NIL	NIL	NIL	NIL	18%
2002/3 (Stages)	27%	36%	43%	49%	53%	57%	60%

APPENDIX V

Examples of the Fairness/Equity Rhetoric in GCCC Communications.

"The consumption based pricing system is being phased in over several years to ensure fairness and equity are maintained and one group of ratepayers is not suddenly disadvantaged by a lower allocation"

City Report to Ratepayers
Mid 1999.

"This year the City will move to the user-pays water charging system --- User-pays brings fairness and real equity into the area of water pricing --- Under the previous (1999/2000) system unit dwellers using 147 KL were charged \$1-75/KL. Customers in dwellings using 259 KL were charged \$1/KL "

City Report to Ratepayers
Mid 2000.

"Under the previous (2000/1) system some consumers were subsidising others. The new one-tier pricing system brings fairness and real equity because every consumer will have the same charge for each litre they use"

City Report to Ratepayers
Mid 2001.

From Step 3 onwards, GCCC began to introduce its own perversion of the user-pays principle.

"As from July 2000 a full consumption based water pricing system - 2 part tariff will be applied to all residential properties"

'Water Pricing' 2000/1

"The 'user-pays' pricing system now applies to all consumers of Council's reticulation system --- The yardstick for the system is fairness and equity for all consumers --- who pay an annual service fee and then are charged for the amount of water they use"

City Report to Ratepayers.
Mid 2002.