

Proposed treatment of customers above target tariffs (Macleod)

- 1. Proposal to freeze prices for customers above target tariffs for the first two years of the regulatory period, with these customers to receive a five per cent reduction in the third year;**

This is totally unreasonable and unacceptable for those who have been paying and appear to be expected to continue to pay and subsidise those from an original rate based calculation.

There is no suggestion that there will be any further reduction in the subsequent regulatory periods.

Given the continued promotion that this new water and sewerage pricing structure is to be fairer than the current system based on rates, for us who pay well in excess of the target tariff, nothing could be further from the truth.

Our current water and sewerage rate is \$2368 per year.

According to the information available, by 2014-15, under the preferred price constraint scenario, Southern Water expects that 68.4 per cent of its customers will be on the fixed water target tariff, all customers will be on the variable water target tariff and 47.3 per cent will be on the sewerage target tariff.

There is no indication when the 100% target will be met for either the fixed water or sewerage target tariffs, but we will no doubt be in excess of twice the dual tariff for many years to come.

The suggestion on Page 92 of the Water and Sewerage Price Determination Investigation Draft Report that..

“..the regulated entities have stated that moving all customers to the target tariffs immediately would result in very significant price shocks for some customers..”

We are prepared for that shock for a downward movement in our cost.

The treatment we are receiving in this pricing regime is indeed no better than the current system that has been deemed unfair.

There is no data made available as to the number of households in a similar predicament to us, thus we are unable to make any assessment as to the impact that the more speedy movement for us to the target tariff as for those under target.

Is there a good and fair reason why the reduction in our rate cannot be quicker, say 15% per year from year one in the first regulatory period? While this may still not meet those households rising from a very low base at the target tariff for some time, it will be quicker and fairer.

- 2. Under two-part pricing, and applying the user pays principle, variable charges are imposed based on the volume of water a customer uses.**

While this is a reasonable approach given consideration to the above comments, under our current payments for water and sewerage, can I assume that for 2012/13 after covering the \$761.03 for the fixed charges, we will have available to us around \$1600 (\$2368 - \$761) of water available to us, equating to around 1800 kL of water.

This will never make up for the inequitable amount that we pay for the fixed charges.