

Water Services Association of Australia

***Submission to Environment and
Communications Legislation Committee
National Water Commission (Abolition)
Bill 2014***



**WATER SERVICES
ASSOCIATION OF AUSTRALIA**

Summary

The Water Services Association of Australia (WSAA) is calling for:

1. Independent, national, thought leadership for the water sector
2. Frank and fearless review and transparent reporting of national water management for multiple stakeholders
3. Reinvigoration of the National Water Initiative (NWI).

WSAA does not support the National Water Commission (Abolition) Bill 2014 on the basis that it removes national water leadership, fearless advice and independent custodianship of the NWI.

WSAA strongly supports a Federally funded independent organisation to promote collaborative, whole-of-government and leading edge management of Australia's most valuable economic, societal and environmental resource.

WSAA, the peak body for water utilities around Australia, leads advocacy, innovation and collaboration programs on behalf of our members. Water utilities, both from the public and private sector, operate hundreds of treatment facilities and over 240,000 kms of pipes servicing our cities and towns.

The urban water sector

The urban water sector is critical to Australia's economy, society and environment. It provides healthy, safe and reliable water and wastewater services that support Australia's high standards of living and underpin its economic success. The sector delivers services to over 20 million Australians in more than 9 million connected properties. Its annual revenue is over \$15 billion and it manages over \$150 billion in assets (National Performance Report 2013).

The sector delivers a range of social and environmental outcomes through its protection of public health, contribution to urban amenity and recreation and facilitation of urban development. It also ensures environmental health and biodiversity outcomes in catchments and water systems, including estuaries, coasts and bays.

Why is a national approach for water needed?

- **Leadership.** There is a need for leadership that can challenge, encourage and collaborate to lead reform of the water industry and provide a cohesive national approach to the way Australia manages, measures, plans for, prices and trades water.
- **Independence.** Australia needs a fully independent body that can provide fearless advice and provide transparent reviews and information for customers, regulators and stakeholders to make informed decisions about water management.
- **Economic growth.** The water sector is critical to sustainable economic growth in Australia and its future productivity and prosperity across our cities and towns, our resources sector and agricultural sector. A national and independent body strengthens the water industry's ability to engage Australians in meaningful dialogue on future challenges.

Although urban water is constitutionally a state responsibility, there is a role for national action to improve economic regulation across the sector, facilitate increased private sector involvement and

improve the robustness of urban water planning. A national approach is required to ensure the sector maintains and improves its performance over the long-term.

Water management in Australia has developed to be robust, transparent and collaborative. It is recognised internationally for taking action early and decisively, particularly during the millennium drought. The OECD ('Meeting the Water Reform Challenge') in 2012 said 'some countries have been at the cutting edge of water policy innovation and developed sophisticated policy frameworks to address water challenges. Australia for example has had a long period of water policy reform...'

This recognition in fact is recognised as coming from a national level, when there was bipartisan political and multi-level stakeholder led support for the National Water Initiative (NWI) and the National Water Commission (NWC).

The National Water Commission (Abolition) Bill 2014 comes at a time where there are a number of reviews underway which comment on national leadership and the role of state and commonwealth governments. We believe that State action alone is not enough.

Unfortunately we are seeing back sliding from States in relation to implementing the NWI:

- Increasing politicised pricing determinations with rates of return that will not encourage private sector investment
- In many growing regional centres the transition to upper bound pricing is slow to non-existent
- Poor governance arrangements, with the original 1994 COAG reforms setting water utilities up as corporatised entities being slowly eroded
- Policy bans on sources and uses of water, urban and rural trading adding costs to customers and limiting innovation (for example: effective policy bans on desalination, potable reuse and use of the North-South pipeline in Victoria)

Abolishing the National Water Commission, a body that has provided fearless advice to both Federal and State governments will allow conditions for this backsliding to continue. In addition there has been no replacement to COAG's Standing Council on Environment and Water, which was abolished in December 2013.

In relation to regulation, WSAA released its Report 'Improving Economic Regulation of Urban Water' in August 2014 which calls for a national framework and harmonisation of regulation across the States and Territories. Infrastructure Partnerships Australia, the peak infrastructure forum for Australia, said of the Report:

'First and foremost, we must begin to think of urban water as an economic enabler, and not only an issue of environmental management. As with electricity, water is an input cost in the production of goods and services, with inefficiencies creating deadweight losses and opportunity costs. Reform will also require national leadership, as it did in other utility sectors.' (Jonathan Kennedy, Head of Government Relations, Infrastructure Partnerships Australia).

In relation to competition, although there may be benefits for the States, there is also benefit to a national approach, as outlined by the recent Competition Policy Review Draft Report (Harper

Review) released in September 2014. The Review calls on all governments to re-commit to reform in the water sector with a view to creating a national framework. It states:

‘Water reform has been slow. A more national approach to water reform may re-establish its momentum. An intergovernmental agreement founded on the assumption that a national framework is both achievable and desirable may clear some roadblocks. A consistent national framework may also assist in driving competition into the retailing of water and creating more effective price signals.’

A national approach does not rule out innovation at a state level. There is an argument that the States could compete against each other, but this has not yet been done for water and the Harper Review Draft Report recommends a national approach is needed for effective momentum in this area.

Meeting future challenges

When creating the NWC in 2004, the Government outlined the reasons why national leadership was important including:

- drought and climate change
- the importance of water in securing Australia’s economic and environmental future
- the value of water for recreation and tourism
- the need to advance sustainable use of water
- fast-growing cities.

In 2004, when a national body to provide leadership and independence was created, these reasons underscored a need for national effort in managing water resources. These reasons remain true today. In fact, more challenges have arisen since 2004, including:

- the role of water management in energy production
- the generation and use of energy in water management
- the potential alignment of water, energy and waste services at a retail level
- balancing the creation of long lived assets such as desalination plants against short term affordability issues and the unknown extremes of climate change
- water management in the resources sector, including coal seam gas
- water management in Northern Australia (the Northern Territory and West Australian governments are yet to pass legislation to implement the NWI reforms so new water resource developments in these jurisdictions would not necessarily be based on agreed national principles).

Meeting these challenges will be more difficult without national leadership and could result in inferior outcomes for customers, industry and the environment. Further, while the water and energy ‘nexus’ is acknowledged as a key challenge for Australia (Challenges at Energy-Water-Carbon Intersections. Prime Minister’s Science, Engineering and Innovation Council Report 2010) the energy sector has maintained a focus at a national level, through regulation at the ACCC and through COAG, and yet we are now facing the prospect of water management having no national focus at all.

There is no room for complacency. Australia needs a resilient water industry to meet future challenges. A national independent body with a focus on water is required to meet the future challenges of:

- **Climate change.** Drought will return. In its October 2014 outlook, the BOM predicts drier conditions are likely over much of central and eastern Australia and the October to December temperature outlooks are for warmer than normal days over most of Australia. In addition there is at least a 50% chance of El Niño developing over the coming months. In its State of the Climate 2014 Report, the BOM states that Australian temperatures are projected to continue to increase, with more extremely hot days and fewer extremely cool days.
- **Population growth.** The ABS projects Australia's estimated resident population to increase from 23 million now to between 36.8 and 48.3 million people by 2061.
- **Liveable and productive cities.** 80% of the dollar value of all goods and services in Australia is produced on just 0.2% of the nation's land mass, nearly all of it in cities. Sydney and Melbourne CBDs alone generate nearly 10% of the value of goods and services produced in all of Australia. (Grattan Institute Report: Mapping Australia's economy - Cities as engines of prosperity July 2014). Urban planning (which includes the provision of water and sanitation services) done poorly in all of Australia's cities, can drag on the national GDP.
- **Future private sector involvement.** Future efficiency and innovation will be driven by greater private sector involvement. Urban water assets comprise over half of the \$120 billion for potential capital recycling identified by Infrastructure Australia.

Proposed role of Productivity Commission

The National Water Commission (Abolition) Bill 2014 proposes that two key statutory functions of the NWC remain: triennial assessments of progress on implementation of the NWI and audits of the implementation of the Murray-Darling Basin Plan and associated Basin State water resource. Both these functions are proposed for transfer to the Productivity Commission (PC). The PC is the Commonwealth's pre-eminent independent research and advisory body on a range of economic, social and environmental issues (as stated on its website). However it does not traditionally oversee and implement programs, and does not have a role in facilitating collaboration among stakeholders across ongoing programs, which is needed for the water industry.

There is also widespread agreement that the NWI requires recommitment and expansion, especially in relation to urban water. See submissions by WSAA to NWC Triennial Assessment December 2013 http://www.nwc.gov.au/_data/assets/pdf_file/0008/35756/Water-Services-Association-of-Australia.pdf and submissions by WSAA and Australian Water Association in 2012 to Environment and Communications Legislation Committee on the NWC Amendment Bill 2012 http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Completed%20inquiries/2010-13/nationalwater2012/submissions.

WSAA is not convinced the PC has a role in being able to lead the development of a new water reform agenda through a renewing of the NWI. The Independent Review of the NWC commissioned by the Commonwealth Government on behalf of COAG found that implementation of the NWI is occurring within a highly complex and evolving environment and that this requires an independent

and specialist institution to credibly engage with, and report on, the progress of water reform. We agree with this finding and call for an independent body to provide this leadership for water reform.

The Bill

We note the Bill abolishes the NWC, while transferring only two statutory functions to the PC. As outlined above there remains an imperative for a national water body that is independent from agencies and can provide strong leadership by supporting water reform for the benefit of Australia's economic and environmental future.

WSAA is calling for:

4. Independent, national thought leadership for the water sector
5. Frank and fearless review and transparent reporting for multiple stakeholders
6. Reinvigorate the National Water Initiative as outlined below.

WSAA recommends that:

- 1) A revised National Water Initiative be developed for urban water to meet the challenges of
 - a) Climate variability, urban growth and the liveability of our cities and towns;
 - b) Providing the financial sustainability necessary for utilities to deliver the services that customers need and are willing to pay for; and
 - c) Enabling greater private participation in the industry to drive innovation.
- 2) The National Water Initiative should bind state governments to implement a regulatory framework which at least meets the following criteria:
 - a) Has clear objectives – protecting the long term interests of consumers
 - b) Is customer-centric – the regulator avoids getting unnecessarily between the utility and its customers
 - c) Establishes a framework where broader costs and benefits can be incorporated into investment decisions for the full range of services it provides across the water cycle
 - d) Has appropriate risk sharing mechanisms — for example, revenue caps, and pass through mechanisms
 - e) Has strong incentives for efficiency and innovation, including rewards as well as sanctions
 - f) Contains an appeal mechanism.
- 3) The National Water Initiative, now and once revised, requires an independent custodian – the role that has been performed by the National Water Commission – who will collaborate and maintain a constant vigilance and leadership role.

Contact details

WSAA welcomes the opportunity to provide a submission to the Committee on this important matter. If there are any details you wish to follow up on, please contact:

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