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TRANSCRIPT
OF PROCEEDINGS

PRODUCTIVITY COMMISSION

INQUIRY INTO AUSTRALIA'S URBAN WATER SECTOR

DR W. CRAIK, Presiding Commissioner

TRANSCRIPT OF PROCEEDINGS

AT SYDNEY ON TUESDAY, 9 NOVEMBER 2010, AT 8.58 AM

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DR CRAIK: Good morning and welcome to the public hearings for the Productivity Commission inquiry into Australia's urban water sector, following the release of the issues paper on 27 September. My name is Wendy Craik and I am the presiding commissioner on this inquiry. The other commissioner on this inquiry is Associate Commissioner Warren Mundy who unfortunately is not able to be here today.

The purpose of this round of hearings is to get comment and feedback on the issues paper and facilitate public participation in the inquiry process more generally. Prior to these hearings in Sydney, we have met with interested parties and individuals throughout Australia and, during October, we held roundtables in Perth, Sydney and Melbourne. Following today's proceedings, hearings will also be held in Canberra, Melbourne, Perth, Adelaide and Hobart. We will then be working towards completing a draft report for publication sometime in March 2011, having considered all the evidence presented at the hearings and in submissions, as well as other informal discussions. On release of the draft report, there will be a further round of public hearings and submissions, and a final report is due to the government in July 2011.

We like to conduct all hearings in a reasonably informal manner, but I remind participants that a full transcript is being taken and, for this reason, comments from the floor cannot be taken, but at the end of proceedings for the day, I will provide an opportunity for any persons wishing to do so to make a brief presentation. Participants are not required to take an oath, but should be truthful in their remarks. Participants are welcome to comment on the issues raised in other submissions. The transcript will be made available to participants and will be available from the commission's web site following the hearings. Submissions are also available on the web site.

To comply with the requirements of the Commonwealth occupational health and safety legislation, you are advised that in the unlikely event of an emergency requiring the evacuation of this building you should - - -

MS .....: Head out to the lifts and go down the stairs.

DR CRAIK: Thank you. I would now like to welcome our first participant Sascha Moege, appearing for the Local Government Association of New South Wales and Shires Association of New South Wales. If I could ask you, Sascha, to introduce yourself, giving your name and the association you're representing for the transcript, and then you are welcome to make a brief presentation.

MR MOEGE (LGSA): Thanks, Wendy. My name is Sascha Moege. I'm senior policy officer at the Local Government and Shires Associations of New South Wales.

I thank the commission for the opportunity to make a few comments on an inquiry. The Local Government and Shires Associations is the representative body of all the general-purpose councils in New South Wales - 152 - and we also represent local water utilities in that role, which is I think about 96 council-owned and operated local water utilities and a number of county councils, which is a special set-up under the Local Government Act, who provide water supply and/or sewerage services, so a local government body as well.

Councils, as you probably know, are generally involved in the water sector. They are a large user of water for their sports fields, for their operations, so all councils try to be very efficient in water management and the way they use water. In addition to that, as I mentioned, in regional New South Wales - which is around the area outside the operation of Sydney Water and Hunter Water - local government provides water supply and sewerage services. That is more than 100 water utilities covered by 1.8 million people. That's about 30 per cent of the state. What is also important is that significant responsibility of councils makes up about 25 per cent of their budget on average, that function, and also a large number of the staff and the capacity they have in councils.

The water supply and sewerage service is run as a separate business unit, if you want to call it that, income and expenditure are ring-fenced so that the utility charges for the services and the charges can only be applied for water supply and sewerage functions, so there's no transfer to the general funds of the tax-funded funds. In my words today, I want to focus mainly on why local government is successful in delivering safe and secure water supply and sewerage services in regional New South Wales. That has been a big issue recently with the inquiry into local water utilities that was initiated by the New South Wales government. There was fear or thoughts in local government that that function would be removed and we have done a lot of work on why that should not be and why local government can actually deliver these services very well.

I want to start by making some short comments on best practice, then look at the institutional settings that are in place and why they work well, and at the end perhaps make some comments on achievements, based basically on our submission that we have provided to the commission. Best practice: there are best practice guidelines in place at the moment which are prepared by the New South Wales Office of Water. Local water utilities are not required - so it's not a mandatory regulation - but they are encouraged to comply with them. Most of them do, or attempt to do, with all the elements. There are some incentives in it: if you comply with them, you are able to pay a dividend and also you are eligible for funding under the Country Town Water Supply and Sewerage Program, which is a capital funding program for utilities.

Performance under those best practice guidelines as well as general performance, I think, is monitored as well by the New South Wales Office of Water in their annual performance monitoring reports. In our submission we have outlined a few achievements, but if I can just mention them, particularly in relation to the focus that local government can deliver those services well. 89 per cent of local water utilities have strategic business plans in place. These are long-term, basically 30-year plans, in terms of service delivery and revenue. That covers about 98 per cent of the connected property in regional New South Wales. So the ones that do not have are small utilities that don't have many customers. 96 per cent achieve full cost recovery for water supply and 97 per cent for sewerage, and there is a positive real rate of return. It's about 0.6 per cent and, according to the monitoring report, that's higher than country Victoria which is, I think, state-owned regional water utilities.

And 68 per cent of local water utilities have commenced an integrated water cycle management evaluational strategy; 46 have that the evaluation in place and 26 have a complete strategy in place. That's an ongoing process, and I think utilities are working hard at the moment, together with the Office of Water, to make progress in relation to integrated water cycle management. There are a few other good things in there, mainly focusing on the typical residential bill, which has been kept quite low, and that was also acknowledged in the national report published by the National Water Commission on water utilities, I think, 28 regional utilities in New South Wales report - or 27, sorry, report to that report. It has been acknowledged that prices have not increased, or there were lower increases than in other areas of Australia, mainly due to the way we have demand management and water pricing measures. So I think it is important to note that there are some really good best practice achievements by local water utilities.

The second issue is the institutional frame that we have in place at the moment. I know that the inquiry focuses on institutional structural and governance frameworks and that was really well covered in the inquiry into local water utilities. The LGSA, I think, believe and councils believe that they have a really good system in place for a number of reasons, and what could be improved is the regional cooperation and finding regional solutions, and local government, I think, is actually keen to find solutions, together with the state government. That is why local government is actually quite keen to get the state government to respond to the local water utilities' inquiry and the recommendations in there.

What we have done, we have focused on providing some reasons for why it works well and there are a number of them. The first one is whole-of-community outcomes - I'll come to all of them in detail a bit later; secondly integrated water cycle management. There are economies of scope in local water utilities, and then there are good ways of dealing with pricing and council decision-making; finding regional

solutions and making sure that councils remain financially sustainable.

Just some detail about the future whole-of-community outcomes. What councils believe is that, as a general-purpose entity, they can integrate a number of community services and so balance community needs and priorities based on the resources they have available, and that also ensures that water supply and sewerage services are integrated into that general integrated community service framework, which we think is a very important part, and councils believe that. That's also important, particularly in regional New South Wales, for seeing local government as a one-stop shop for the community, to provide services and provide an opportunity to talk about the services, provide feedback.

An important example of that is the ability to coordinate land use planning and planning for water supply and sewerage services; coordinate water supply and sewerage operations and infrastructure with economic development priorities in that council, which is particularly important in regional New South Wales; coordinate demand management and local supply with local catchments via the environmental objectives and coordinate water supply and sewerage functions with the other water needs of a council. I mentioned that councils are major operators with water: parks, reserves, leisure centres, airports, showgrounds, caravan parks and so on. Local government believes that this kind of coordination and integration would be really difficult to achieve in a different institutional setting in regional New South Wales.

The second reason why I believe that setting is really good is integrated water cycle management, and if you look at local government, local government has all these roles and functions in place that really allow you to do true integrated water cycle management. Local government combines all aspects of the water cycle - water supply, sewerage, stormwater, water conservation, recycling, pollution prevention, flood control - and that integration allows local government to look at all the issues, look at alternative water supplies, plan water in an integrated way. What has always been raised during the inquiry is that, for instance, other settings, in particular settings of a disaggregated model like in South East Queensland, would make it really difficult to achieve that because you just don't have the kind of integrational functions within one body.

The third reason was economies of scope. That was often raised by local government. I guess in simplistic general terms, economies of scope mean it is cheaper for an entity to provide a range of services together than for each of the services to be provided by separate entities and that, in terms of economies of scope, can arise from technical, managerial and administrative integration. It comes back to what I said before. In the areas of engineering, asset management, corporate planning, there are lots of economies of scope because local government does also roads, it does buildings and land and other assets, and construction work, so there are true economies of scope. Also, in terms of technical IT systems there is scope there.

There is scope for economies of scope in dealings with the customer, the customer systems, because ratepayers or the community - that is, the customer for water supply and sewerage services - is also a customer for all sorts of other community services provided by local government. I guess the important thing to note is that if you remove that function from local government you lose these economies of scope to some degree. I mention it is about 25 per cent of the budget, therefore a quite significant number of staff and staff capacity with some sort of involvement, or associated with water supply and sewerage - you would lose that and councils would struggle to have these economies of scope in place. There are better solutions: to keep them and find, for instance, regional solutions. I comment later about the other structures where local government remains the operator and owner of infrastructure but finds regional solutions.

These are the three main reasons I think, in terms of pricing and council decision-making just a few notes: we recognise that pricing is a very important issue and I think local government is very supportive of the best practice guidelines, which require full cost recovery. We have also put forward, because that was an issue during the inquiry, whether those pricing decisions are made prudently; that perhaps a proper audit of those pricing decisions, together with the strategic business planning process, should be in place, where for instance an independent auditor would undertake a fit-for-purpose audit of strategic planning and the pricing based on that.

In terms of councillor decision-making, local government believes that councillors or local representatives are very good at making local decisions and can make prudent decisions for investment into water supply and sewerage infrastructure, mainly because they have the local knowledge and also, as I mentioned before, know about community priorities, not only in water supply and sewerage but also in other community service areas.

These things that we have put forward to the inquiry and I put forward now show why local government is well placed to deliver those services: What has also been identified during the inquiry is a need for regional solutions. There are some issues about technical capacity; attracting skilled staff, particularly in smaller utilities. There are also some issues around benefits from regional solutions for water supply and sewerage services.

I guess water supply sources could be shared. Networks could be connected to make sure that you can deal with drought and have safety measures in place. Perhaps even new networks could be bought, new infrastructure built, new water supply sources accessed if there is a regional solution. Also, regional solutions

would allow an even better catchment focus. The catchments in New South Wales are bigger than the councils'. I think on average probably five to 10 councils will cover a catchment, so it would be worthwhile looking at those catchment-wide solutions as well.

What we have put forward - and we have put actually an appendix into our submission which outlines that model in detail. I am happy to answer some questions. We have put forward the regional alliance model which allows councils to come together and form a regional alliance which would basically guide member councils in their strategy business planning in all aspects, and local councils then would implement those based on that guidance of strategic business planning. So basically what it means: the operation, the functions, remain with local government; the assets remain with local government; but there is an overarching body which helps with capacity-sharing and finding some regional solution on the strategic level. That was a very important part and we are quite keen to get the state government's response on that model. There are a number of groups of councils that are keen to go ahead with something like that. One is already in place and I'll come to that later, but it would be good to hear something about that.

The last thing I want to mention, just quickly, in terms of local government is financial sustainability of local government itself. I've said before that water supply and sewerage is a major part of local government's operation, and what also needs to be considered is that local government without water supply and sewerage services, and regional New South Wales often will struggle to be financially sustainable. There is a big income stream falling away - not only an income stream but also the ability to attract skilled staff. Staff in local government are multiskilled. They do the asset management and manage the roads and water supply and sewerage and all other assets they have, so they have like a base. If you take water supply and sewerage away, lots of their workload would be taken away, so those staff might not be interested to work any more, or staff levels would have to be reduced. So local government was very concerned about that and always called, in many submissions, for a true assessment of impacts a removal or a change in the institutional settings might have on local government.

Just very briefly I want to mention a few achievements which relate to what I just said. I might talk firstly on the groups of councils that have done something in that regard. The first one I'll mention is the Lower Macquarie Water Utilities Alliance. That is an alliance of - I'm not quite sure how many councils are there - six or more councils in the Castlereagh-Macquarie catchment. They have come together and actually formed something like a regional alliance where the councils work together. They work on a political committee and also a technical committee. They have had a few achievements already. For instance, they have undertaken a lot of regional integrated water cycle management planning and are currently in the process

of implementing drinking water risk management plans for each council, which is a very important issue that needs to be covered in regional New South Wales.

Another group is the CENTROC group. That's the Central New South Wales Regional Organisation of Councils, covering 15 or more - 16 councils I think. What they have done is recently commissioned a water drought, a water security, study, which came up with a number of regional solutions, including infrastructure solutions, pipelines to connect council networks, to make the water supply more safe and secure, and regional demand management initiatives. I think that's currently in the process of asking for funds from government and also setting a process up, but what will be interesting to see is the institutional setting that will be built around that initiative.

Another one, which has already been implemented, is some sort of cooperation between Clarence Valley Council and Coffs Harbour City Council. The Shannon Creek dam project is quite well known, but they have also found the regional solutions, basically, connecting the two networks, having a joint strategy, having some joint infrastructure, including the Shannon Creek dam, and making sure that both supply systems are secure in terms of water supply, in light of recent droughts that they had up there.

A number of other things that local government is doing in a very general sense: we are having, and local government is organising, an annual water management conference, which allows the sector to come together and share their knowledge and their experiences. That is a very well attended conference. We had over 250 attendees at the last one in Orange.

Local government is also quite involved in helping local water utilities to deal with a number of water efficiency issues. For example, we have a water loss management program in place, which is partly funded by the Australian government, where we have a team in the LGSA office sitting there, going around - team of engineers assessing council systems in terms of water leakage and helping them to find a solution for water leakage and then getting funds - I think it's about one-third from the federal government and the remaining funds from the council itself - to actually fix that and put a system in place that works better. A part of that, for instance, is that permanent flow meters are being installed in many areas, which is a good outcome in terms of sustainability.

I think that's all I want to mention. There are a few more comments on that in our submission on those initiatives. So I think altogether, or in conclusion, you can see from that our reasons for why local government is really well placed, from the best practice local government achieves and also from the other initiatives that are going on - that local government is really well placed to deliver water management

services and wants to continue to, and local government is very keen to continue to find regional solutions to allow for better regional planning from an infrastructure perspective and from a catchment perspective. Thanks. Any questions?

DR CRAIK: Thanks very much, Sascha, and thanks for the detail in your submission as well. The figures that you have given on performance in your submission I guess come from the performance monitoring report of the New South Wales government. Has that reporting process and the best practice management guidelines helped improve performance over time?

MR MOEGE (LGSA): I don't have the data here but I have been in the water policy area for a number of years now, I think three, and I remember writing earlier submissions where those figures were lower in all aspects; particularly strategic business planning, which is the important part, and achieving cost recovery. Local government has continuously improved and is working very well, together with the Office of Water, to continue to improve that performance. So, yes, there has been improvement in recent years; quite significant improvements. I would say over the last five to 10 years, quite significant improvement.

DR CRAIK: The submission quotes performance figures and the report suggests - and I think you might have said it again this morning - that 96 per cent of utilities achieve full cost recovery and obviously, however you calculate full cost recovery, that's quite detailed. Our impression is that because some of those utilities appear to be having negative rates of real economic return, does the cost recovery focus on operating expenditure or does it actually cover the notion of replacement - of new capital expenditure as well, which is what the NWI guidelines suggest? There seems to be some -well, you have a high number of councils are sharing full cost recovery but a greater number of councils with a negative real economic rate of return.

MR MOEGE (LGSA): I think there are a few which have a negative real rate of return. That rate of return, to my knowledge, however, is quite low in the negative so just a little bit under. In terms of what - - -

DR CRAIK: I think I recall seeing one in one of those graphs. It was about minus 7 per cent or something.

MR MOEGE (LGSA): Was it?

DR CRAIK: Yes. It was quite high. I think that was the highest.

MR MOEGE (LGSA): I'm not aware in detail of what the figures are. The second issue is about what cost recovery actually means. I think, yes, it would include not only operating but also capital expenditure. The cost recovery assessment I think is

based on the long-term strategic business planning and, if you talk to the Office of Water, they will tell you that local government would be able to fund all their operations, including capital expenditure, over the next 30 years as set out in their strategic business plan.

If you wanted to compare then I think - I've done it before - it would be fair to say that it's something similar to what's called lower bound pricing under the National Water Commission, some of them achieving a bit more than that and going towards upper bound pricing. However, there is a bit of reluctance I think in local government as it is provided by council, which is a political body, to for instance do things like pay a dividend to the general fund. That's something council does not necessarily aspire to and if you look at the performance report you will find that only a very few actually - - -

DR CRAIK: I couldn't actually find it. I've been trying to find it, so I was going to ask you how many councils do actually pay a dividend. I couldn't find it in the report.

MR MOEGE (LGSA): Certainly Shoalhaven City Council pays a dividend at the moment and they have done so over the last few years, as far as I remember. I think Bega Valley has paid a dividend, not continuously but in one of the last few years. There might be one or two others but that's about it, yes, so not many do it.

DR CRAIK: For this new capital expenditure, you mentioned earlier that if the councils - the incentive for following best practice guidelines are to get some kind of participation in this water supply fund, presumably for capital expenditure from the state government. So presumably that goes towards the new capital expenditure as well as the council's funding. I guess I'm just trying to get a handle on how new capital expenditure is funded.

MR MOEGE (LGSA): What is the subsidy element - yes, that's right - which is the Country Town Water Supply and Sewerage Program, which is over one billion over the last 10 years or so, which has helped local government quite significantly. That is obviously a subsidy that would interfere with cost recovery principles generally, yes.

DR CRAIK: That's not really brought out in the report, is it?

MR MOEGE (LGSA): No, it's not.

DR CRAIK: No.

MR MOEGE (LGSA): Not to my knowledge. However, there's good data

available on it and you could probably talk to New South Wales Office of Water, who know very well about that.

DR CRAIK: Okay.

MR MOEGE (LGSA): I think what needs to be noted is that, unlike in the Sydney area for instance, or in metropolitan areas generally, in regional areas the customer basis is just often not large enough and the infrastructure, particularly in western New South Wales, cannot really be covered just through charges. So there's probably a need generally to have a funding arrangement in place where you would help some areas in need that can't sort of cover their costs fully through charging. That would apply in all sorts of settings unless you have, for instance, postage stamp pricing across the whole of regional New South Wales, which is but at the moment occurring on a smaller scale within utilities where smaller villages are subsidised by the bigger towns. However, it will be difficult to work without such funding particularly in western New South Wales where areas are very sparsely populated.

DR CRAIK: Presumably a lot of their populations are ageing and/or pensioners.

MR MOEGE (LGSA): That's a real issue.

DR CRAIK: And so it would be another issue.

MR MOEGE (LGSA): Actually in our submission to the inquiry we have called for the retention of such a program, probably with a bit of change so that you could focus more on needs of particular areas but, yes, that would be an important part as well.

DR CRAIK: And the accounts of local government - the water account, is that audited in relation to the ring fencing and are they all regularly - are they all audited on an annual basis and are they audited in relation to the ring fencing of the costs?

MR MOEGE (LGSA): All the financials are audited properly as a financial auditing, and the financial statements are being prepared, which are audited, which includes the water supply and sewerage function, which has a separate statement. In terms of auditing the strategic business plan itself, or the prudence of the planning itself, there's no regular audit I think in place. The New South Wales Office of Water is reviewing all strategic business plans and I guess giving councils advice in relation to the performance reporting or performance monitoring; it would have a look at all of them.

Strategic business plans I believe are properly audited when councils want to pay a dividend, for instance. Then they need to go through a special audit process where an auditor comes in and looks at the strategic business plan as well and whether it's prudent and fit for purpose. That's basically the process

we have suggested that councils should go through or could go through if there is a need to do that. It really depends. I think we, as you said, are not in a position to make a judgment on that in terms of having a detailed understanding about all strategic business plans, but the Office of Water would know that would - I think at one stage if they see the need to do that, would be able to implement such a process.

DR CRAIK: Okay, thanks. Now, certainly from the performance reports and I guess the Armstrong and Gellatly report, the majority of utilities are meeting the health standards. I think it was the Armstrong and Gellatly report suggested that something like 12 - no, it was in your submission; 12 per cent do not. And Armstrong and Gellatly said that this noncompliance was of great concern. Are there particular reasons why? I mean 12 per cent is reasonably high. Are there particular reasons why that would be the case? Do you know?

MR MOEGE (LGSA): I'm not fully aware. I would make probably some guess but I would say, from my understanding from a few meetings, that particularly in recent years the drought has affected a few water supply sources, which led to a few issues. Groundwater is used by a number of councils, which can be difficult, particularly in smaller utilities. I'm not quite sure what would happen if you compare the data but, yes, in a regional or remote setting it's probably more difficult to achieve that, particularly in drought circumstances. You will probably have some health problems or water quality problems from time to time which are more difficult to address than in the metropolitan area. I think these are the reasons, but I'm not aware of the details of why they occur in specific circumstances.

DR CRAIK: There's a figure around that suggests that, comparing New South Wales and Victorian regional water utilities, Victoria is 13 per cent more efficient in relation to water and 22 per cent in relation to sewerage. Do you have a comment on that, given that you made the point before about comparisons between New South Wales and Victoria?

MR MOEGE (LGSA): It's hard for me to comment, apart from what I'm saying. We have to accept those figures on face value at the moment because I don't have any others. It depends on how you look at it. As I said before, local government looks at water supply and sewerage as a community service. I guess Victorian water utilities would look at it as a sort of commercial product that they provide to their customers, and I guess there is a difference there. Whether that has an impact on efficiency and how that efficiency is measured in the particular circumstances, I don't know, but local government probably would have the opportunity to take a more balanced approach and look at other community services, as I said before, and perhaps take a bit lower efficiency if they can achieve a better result for the whole of the community services potentially. But, yes, I can't comment on those figures.

DR CRAIK: You mentioned the notion of the binding alliances. Rather than a corporation-owned member council's model, can you suggest why you prefer the alliance model?

MR MOEGE (LGSA): Local government prefers the alliance model because the council retains ownership of the infrastructure and also of the operations of water supply and sewerage services. That was very important to almost every council during the inquiry. That is driven by a number of things. I have mentioned a number of them before, but also driven by that financial sustainability consideration: that if you take that chunk of work, staff and infrastructure away, local government might struggle financially.

Local government really believes that they can truly deliver that service and want to retain the infrastructure, and the binding alliance model would allow them to do that because what you do is you create just a framework for regional cooperation which is, I think, from our perspective the first step local government can take in some sort of a supportive way, to go onto that kind of cooperation model, before they make some further adjustments or adaptations.

For instance, we have always put forward, "Yes, if local government wants to give more functions to the alliance, they can always do that by agreement." But at the very least, we have supported the model where there is cooperation which asks them to share technical staff, which is really well done in the Dubbo alliance, the Lower Macquarie Water Utilities Alliance where they share staff, have actually one consultant engaged who deals with all the councils and helps them, and also to find some sort of a framework for regional solutions, which might be interesting for the CENTROC model, for instance, or what has been done around Dubbo in terms of regional integrated water cycle management plans. But, yes, it was very important for local government to retain that function. They didn't want to give that away.

DR CRAIK: So they might lose some efficiency in the process but local government sees a bit of a community - - -

MR MOEGE (LGSA): Yes. Local government, I think, sees it as a community service they provide and want to retain it. That is, I guess, the other issue. That's very important. What was mentioned as a catchword by councils often was the one-stop shop which, particularly in regional areas, local government really and truly believes in. They provide all sorts of services for the community. The community can go there and ask for the services, talk about them, make suggestions, and go to always the same place, to their local council, and that's something that is sort of entrenched in that kind of local community feeling, local democracy, that exists in regional New South Wales.

What we have always said is that inquiry in New South Wales came from a funny perspective because it looked at only the water and sewerage functions, whereas if you did that, you actually would need to look at local government as a whole and see how it delivers services. You can't just take a chunk away, do something else and leave local government with the remaining things. So that's an important consideration for councils. That's why they wanted to retain that and how they saw the need to do regional solutions in some areas. As you can see, there are a number of groups of councils who want to do that.

DR CRAIK: There is a lot going on in regional Australia. There is a lot of change going on anyway: you know, some bigger towns become smaller towns; smaller towns disappear; farms amalgamate and you get better roads and things like that; and you get other centres like Dubbo and places growing. I guess the question I have is, should water and wastewater services be kind of managed to try to sort of slow this decline by ensuring local employment which could be one way of expressing what local government wishes to do? Is this effective or really are the forces that are going on anyway of demographic change, technological change, aggregation of things, the decline of some parts of rural Australia, really too great? Will the sort of approach that local governments in New South Wales want lead to a kind of slow decline as opposed to doing something a bit more radical?

MR MOEGE (LGSA): I don't know whether I can, on behalf of the LGSA, make a comment. It's probably fair to say that local government believes in regional New South Wales and would be happy to support regional New South Wales and, yes, the local employment issue or the regional economy issue was a very important part of that inquiry, and any function that local government provides, any service, has an impact on local employment, has an impact on the town, as any other activities in those towns have. As you know, the Murray-Darling Basin Authority came out with its guide and people are very concerned about impacts on local regional economies, and so is the Local Government and Shires Associations, by the way. But, yes, I think local government is quite keen to use any economic development opportunity that exists in regional New South Wales and take advantage of that, and make sure that regional New South Wales not only slowly declines but survives, and survives in a way - that will be, I guess, what local government wants to achieve.

DR CRAIK: I guess the question really is, with the way the world is going, is it realistic to assume that local government will always be able to get the appropriately skilled people to do the appropriate work and will they have the population sizes to support maintenance of assets and things like that in the longer term?

MR MOEGE (LGSA): I think that was a recognition of the inquiry and amongst local government and that's one of the reasons why local government and the inquiry came out with that alliance model which, hopefully, will allow for that alliance to be

able to attract that skilled staff, because they actually have very interesting wide-ranging work to do if they came to that alliance. They would have to deal with a number of councils, perhaps with a number of networks which might or might not be connected, with a number of infrastructure sets still there, with a number of opportunities to develop that infrastructure set to make better regional use of water sources. So I think there could be quite challenging work, and if local government, together with the state government, finds a framework for delivering that kind of institutional setting where councils can come together and form a regional alliance, I think local government believes that that would help and would make them viable over the long term.

DR CRAIK: Is there anything stopping local governments doing that, in the absence of a state government response, because you mention obviously that some of them have already kind of moved in that direction?

MR MOEGE (LGSA): I guess you create an expectation if you start that kind of inquiry, which you need to address. If the government hadn't done an inquiry, perhaps local government would be already quicker in finding regional solutions. But you never know. As I said, some of them are already going ahead. The Lower Macquarie Water Utilities Alliance was very quick. When the inquiry started they already had set up a few things and potentially councils could use that framework. Councils at the moment are a bit reluctant because the legal framework is not quite clear. There are the options under the Local Government Act to just form a committee which would be a committee of the alliance. There would be potential changes to the Local Government Act. You could have a new legislative framework for the alliance. That's all quite unclear and I don't think councils want to COMMIT before that's been set up. That's why we're waiting for the response.

DR CRAIK: Okay.

MR MOEGE (LGSA): The other thing was, what these groups of councils have raised is that setting up that alliance, doing a business case for the alliance, can be quite expensive.

DR CRAIK: Sure, yes.

MR MOEGE (LGSA): And the state government has created an expectation that they would help with it.

DR CRAIK: Okay.

MR MOEGE (LGSA): For instance, RAMROC, the Riverina and Murray Regional Organisation of Councils, is an alliance which covers about 18 councils in

the south-western part. They were quite keen to go ahead with an alliance model as well, but they are still waiting for a commitment by the state government to help them a bit as well, and that's part of the recommendation of the inquiry, that that will be available to groups of councils. So there are a few things I guess, but, yes, the main thing is that that inquiry created that expectation.

DR CRAIK: Okay.

MR MOEGE (LGSA): They can't just go ahead, as well. The CENTROC study, for instance, I don't know, but I don't think it was necessarily triggered by the inquiry but it was triggered by the water supply situation in the area around Orange, and all these councils around where they were dramatically impacted by drought a few years ago. Now the dams are full, but that could come back again.

DR CRAIK: Yes, true.

MR MOEGE (LGSA): And they initiated that study by themselves, which is quite a big exercise, and came up with some regional solutions already. So they are initiatives from local government to do that.

DR CRAIK: Okay. Does the Local Government and Shires Associations agree with all the recommendations of the Armstrong and Gellatly report?

MR MOEGE (LGSA): Generally, yes, we do.

DR CRAIK: Because there are some about mandatory regulation or mandatory best practice pricing - mandatory full cost recovery and - - -

MR MOEGE (LGSA): Yes, best practice guidelines should become mandatory.

DR CRAIK: Yes, that's right.

MR MOEGE (LGSA): Including drinking water management plans.

DR CRAIK: That's right, yes.

MR MOEGE (LGSA): Risk management plans.

DR CRAIK: Yes.

MR MOEGE (LGSA): Which was an important recommendation. I think our official position is that we support that as well, subject to the government adopting an alliance model. If that's the case, we would be supportive also of introducing that

kind of new regulatory framework. Yes, if you talk to council utilities they are quite happy with that, and many of them actually go ahead with those kind of things.

DR CRAIK: One of the comments that you did make in your submission was that in relation to structures and things, if there were, I guess, water utilities which were kind of stand-alone from councils, you didn't favour independent people on boards, or that councils didn't favour independent people on boards. That's something of a departure from the usual view of corporate governance of these things.

MR MOEGE (LGSA): Yes, that's true.

DR CRAIK: What's the basis for that?

MR MOEGE (LGSA): I think the basis for that is what was mentioned before. Local government wants to achieve whole-of-community outcomes and therefore local government believes that councillors are best placed to make those kind of decisions, therefore they should also be on the decision-making body for the water supply and sewerage function if there is a separate one, which is basically currently the case. Even though the funds are ring-fenced, the councillors still make the decisions on what should be done and what investment should be made, how water supply should be provided. So, yes, that's the reason why.

Really what we had in mind, I guess, is if the alliance has a board or some sort of decision-making body, because it's a council body we believe that councillors should be on that board. We put forward, I believe, that the main reason for having an independent or an external sort of board is getting different experiences, different knowledge, onto the board, and we've put forward, I think, that that can be done through some sort of a technical body which sits underneath that.

DR CRAIK: A sort of advisory body.

MR MOEGE (LGSA): Which could advise the decision-making body. That would be probably the preferred position for local government. But, yes, it's based on that community decision-making, local democracy notion that underpins local government generally that local government wants to make that decision.

DR CRAIK: Okay. Do the local water utilities or local governments have to set prices within the criteria? Do they have to do the best practice guidelines, have the criteria? What if they don't set prices using those criteria? Is there a problem? Or is it that they just report it and next year they're encouraged to do better sort of thing?

MR MOEGE (LGSA): Yes.

DR CRAIK: That's the current approach?

MR MOEGE (LGSA): Yes. The best practice guidelines are not mandatory, they are guidelines.

DR CRAIK: Yes, okay.

MR MOEGE (LGSA): As I said, there are a few incentives. I mentioned them.

DR CRAIK: Yes, I noticed that.

MR MOEGE (LGSA): And they have been in place for a while. And I guess there is an understanding in the industry that they want to achieve best practice, so if you look at comparative competition principles, I guess there will be something that will work there as well. And, yes, there is an annual monitoring, so you would know which councils do and which don't comply.

DR CRAIK: Sort of "name and shame" stuff, yes.

MR MOEGE (LGSA): Yes. But that has worked quite well, and I think the Office of Water is working really closely with councils who don't comply, particularly in relation to cost recovery, trying to make sure to understand what the problem is and how that can be solved. That so far has been quite a good relationship. It has been a long process, but it's probably a good process because the Office of Water was very supportive and it's better than having just - with local government it's probably better to have a bit more of a soft approach in terms of trying to implement these kind of changes which the Office of Water has done, than just being very radical and saying, "You have to comply," from one day to the other, which often doesn't work, in particular politically. So they have done a great job, I believe, so far and should now hopefully focus on other improvements.

DR CRAIK: Okay. How frequently are prices set by the local water utilities? Every year or every - - -

MR MOEGE (LGSA): I believe so.

DR CRAIK: It's an annual - - -

MR MOEGE (LGSA): Yes.

DR CRAIK: Are the best practice guidelines updated very often?

MR MOEGE (LGSA): Yes. Last time they were updated in 2007, which is the

latest, and they were launched at our water conference by Minister Rees, Water Minister Rees, then. I believe it was 2007. I don't know whether there is some sort of a specific time frame they have to do it.

DR CRAIK: Okay. And I presume local government is consulted.

MR MOEGE (LGSA): Yes. We have regular liaison with the Office of Water anyway about these sorts of issues, which is a bimonthly meeting we have with the Office of Water which covers that as well, and we have quite a good relationship.

DR CRAIK: Okay, good. In terms of things like water restrictions and water conservation programs, is that at the discretion of the local council completely or the local water part of the council completely, or are there guidelines from the state government or - - -

MR MOEGE (LGSA): Firstly local government is responsible for demand management and also for water restrictions. In the best practice guidelines there is an element of drought management, which would include a bit of guidance on that. There is not much more than that, which doesn't mean it doesn't work, but councils are, I guess, quite supportive of water restrictions at the moment. They have been doing that over the last 10 years, however long the drought was, quite well. They've had a lot of community support.

The only issue that regularly occurs is that there is no uniformity in terms of water restrictions, so if you go to Dubbo they have a restriction 5A and the adjoining council has restriction level 3, and nobody knows what it actually all means, in particular people who travel around, but I guess that's an issue that hasn't been addressed because, as I said before, probably it's really part of the local fabric, the local supply solutions, the local priorities in terms of what should get water and what shouldn't get water, where councillors make the decisions on water restrictions and what kind of system they want to have in place.

The Water Directorate, which is another industry body representing local water utilities in regional New South Wales, has I believe a publication on water restrictions as well, which provides more guidance and also a bit more uniformity if councils want to adopt that. Some of them do. So, yes, that's the situation at the moment I think.

DR CRAIK: Okay. In the submission you mention a few concerns with the Water Industry Competition Act. Is that a result of problems that have occurred in local government? Is it kind of a concern about the future or is it a concern about things that have actually happened?

MR MOEGE (LGSA): I think it's more a concern about the future. There are a number of councils who I think have some sort of separate developments which provide water on site or want to provide water on site, and the council and/or local water utility obviously get concerned as to what would happen if that supply source failed or the operator fails. I think the concerns come from that perspective. To my knowledge there is not any system that has failed so far.

DR CRAIK: It hasn't happened yet?

MR MOEGE (LGSA): Yes. There are a few - I think IPART will be much better to answer that question, but there are a few licence applications in place under WICA at the moment for these kind of developments and that has triggered local government's response. I must say, however, that I think the New South Wales government is still working on that issue, in particular how to address retailer/operator of last resort responsibilities and there is an acknowledgment that that has not been sufficiently addressed in the Water Industry Competition Act at the moment, and a bit more work needs to be done. Local government will be and is involved in that process at the moment. The concerns we have raised in our submission I guess hopefully will be addressed in the next coming period when the sometime state government looks at the Water Industry Competition Act.

DR CRAIK: Okay, thanks. Now, you mentioned Orange City Council stormwater harvesting scheme and it says it can provide up to 40 per cent of the city's water needs. Was that funded by the council itself or was that a special project funding? And has that led to other councils doing similar sorts of things?

MR MOEGE (LGSA): I'm not sure where the funding comes from in detail. I would have to make a guess, which is probably not appropriate at the moment. I would assume that Orange City Council has funded a significant part of it. Obviously it has funded it partly but that's just an assumption. The scheme itself has been very well received in local government. It featured at our water conference in Orange this year. We had a site visit to the infrastructure, to the scheme.

People are quite keen to now get knowledge about it, around it, and I would assume that would trigger some other councils to look at that kind of issue, particularly, as I said, I guess it sets the best practice example which you can use, particularly in relation to coordinating that with the regulator. To my knowledge New South Wales Health was quite involved as well in terms of water quality and quite interested and had a lot of input, which was quite important. So I guess other councils will look at that now.

DR CRAIK: And, finally, your submission mentions that some Aboriginal Land Council regions come under the Local Government and Shires Associations. Is the

water supply arrangement different in any way in those places?

MR MOEGE (LGSA): That's probably a very complex question. I guess firstly the set-up, to my knowledge, of Aboriginal communities in terms of local government or bodies, is there is a New South Wales Aboriginal Land Council, which is the only body that has elected members on it. However, there are a number of - around 15 regions, Regional Aboriginal Land Councils which are a subset of that New South Wales Aboriginal Land Council. So to my knowledge they don't have elected representatives but are some sort of a division of that New South Wales Aboriginal Land Council.

In terms of water supply and sewerage, normally Aboriginal communities - not normally but there are Aboriginal communities that have their own systems in place, mainly because the land is owned by the Aboriginal community. Local government is not their service provider necessarily. They don't own the land, they can't own necessarily the infrastructure that is on the land, so Aboriginal communities often have their own schemes - water supply and sewerage schemes, particularly in regional and remote areas. Some of them are already connected to water utilities and have pricing and charging arrangements in place.

With the others, the New South Wales government is actually currently addressing that problem. I didn't mention it in the submission but there is an Aboriginal Communities Water and Sewerage Program in place, which is I think a bit above $200 million over a very long term, 25 years, half funded by the government and half funded by the New South Wales Aboriginal Land Council, which at the moment provides funds to local water utilities or any other provider to maintain and operate the systems in Aboriginal communities. That program is currently running. If you wanted to know more details, if you could talk to the Office of Water, who is the program manager for that program.

DR CRAIK: Okay.

MR MOEGE (LGSA): Local government sits on the steering committee now and we have been calling for such a program actually for a while because it would address, or is going to address, hopefully the sort of water qualities, infrastructure issues in Aboriginal communities. They have been going around talking to Aboriginal communities, talking to the water utility, having around 20 interim arrangements already in place for where either the local water utilities or, in some cases, a private provider has taken over the system and running it and making sure it works properly.

So they are interesting arrangements and into the future what needs to be sort of covered is probably perhaps integrating those communities into the normal water

supply and sewerage provision, making sure that you can also have proper pricing arrangements and cost recovery arrangements in place in whatever way that would function; making sure the water utility has the ability to recover costs for that service as well, which is currently funded through their program and not through charges.

So, yes, there's a bit of work to do but that's my knowledge about water supply research in Aboriginal communities in regional New South Wales but there is a good development with that program.

DR CRAIK: Okay, thank you. That completes the questions that I've got today, so thank you very much.

DR CRAIK: I will call our next witness. We now have IPART, the Independent Pricing and Regulatory Tribunal. Thanks very much for coming along today and if you could say your name and your organisation for the record, and then I would invite you to make a brief opening statement. So thank you.

MR COX (IPART): Thank you very much. I am Jim Cox. I'm chief executive officer and full-time member of IPART.

MR REID (IPART): My name is Colin Reid. I'm the director of water at IPART.

MR COX (IPART): I begin by saying thank you very much for the opportunity to make a brief appearance this morning. I should begin by apologising for the non-appearance to date of our submission. IPART also is a submission receiving organisation and we do understand how important it is to get submissions in early so that people can work on them. In this case I have to say that the hold-up is entirely due to me. It's sitting on my desk and we are going to try and work very hard to make sure that we provide something that will be useful to you.

DR CRAIK: Thank you.

MR COX (IPART): It's probably just a few days away.

DR CRAIK: Thank you for your brief outline anyway. We do appreciate getting something before you came along.

MR COX (IPART): I thought what I might do today is just make some brief remarks, probably in five areas. One is the institutional framework, the second is efficiency, third is pricing and restrictions, fourthly on price regulation, fifthly on competition. So here are some thoughts that we might just start off with.

As an observation, I guess our remarks probably concentrate on the potable water side of the business but I suspect sewerage also is an important subject and may be under-dealt with in what we have prepared, but obviously water and sewerage are becoming increasingly closely connected, so it's becoming hard to think about one without the other. That's my sort of prefatory remark.

I think the second one is what we've seen in recent times. It's a move away from a situation where water has been taken that's actually from a large dam to a situation where there is a diversity of sources with different characteristics. Now, for example, we have desalination, we have recycling, demand management and, in some cities, rural to urban transfers. So we're coming to a situation where there is a much more diverse source of supply of water and I think thinking through the implications of that is very important as to what source should be used by when and

what arrangements encourage that to happen. So I think that's something we're all really coming to grips with because it is pretty new but it is obviously a very important backdrop to your current inquiry.

Now, I suppose the first topic I would just say a bit about is the institutional framework. Obviously we have come through a recent and very severe drought. I guess one of the things we probably realised after the drought was that we hadn't sufficiently provided for new capacity. So in a sense I think the arrangements we have for balancing supply and demand for water services probably haven't been as good as they should be and I think now perhaps where the immediate round of augmentations has taken place may provide us with a good opportunity to think about how things might be done better in future.

I guess we would place a lot of emphasis on a more open and transparent process, one emphasising greater public participation, transparency, than has been the case in the past. So we would probably say that we need to have perhaps more independent and evidence based processes for deciding what should be built and when, and that probably does mean putting more information in the public arena. It probably does mean also a much greater emphasis on cost-benefit analysis of the planning and delivery of water supply options. I think these more open and sophisticated planning processes are probably the way we should go.

Also, I think we need to expand the range of proposals that can be considered, so it's not just ones proposed by incumbent water supply agencies; to think of arrangements whereby other ideas or proposals from other than incumbents can be considered. So I think there is an important job to do, to think through institutional arrangements for balancing supply and demand for water services in future. That's probably all I'll say on the first point.

On the second one, on efficiency, obviously this is something that we have been worried about since the early 1990s. I think it's fair to say that there were substantial gains in efficiency made during the 1990s; in particular the costs of providing water came down, and that was reflected in lower prices. In more recent years, from around 2004, that has tended to be reversed. Costs have been rising. The main reason why this has happened is increased capital expenditure for obviously supply augmentation and to meet improved environmental and other licence standards. So if you measure productivity, you'll find in the water industry that it has gone down recently. I think it's important to say that a lot of this capital expenditure is made to secure outputs, not only in the present but in the future, so just think about what that means. I don't think you can just look at the current measures of inputs and outputs. But the result of that has been increased prices, and affordability is obviously a matter of considerable concern to the community.

I think an important cost driver has been government-imposed standards; obviously minimum standards are important to protect public health and the environment and to provide consumer protection. So these standards are important. Nevertheless, I think we have seen in recent years an increase in standards and hence an increase in prices and that is running up against the willingness of the community to pay. This is not to say that improved standards are a bad thing - I think they're a good thing - but I think we do need to pay greater attention to ensuring that, where standards are increased, we are persuaded that the costs of doing so are less than the benefits. I think there's something there about a more consistent use of cost-benefit analysis of increase in standards. I think that is a message that applies to IPART as well as some other regulators, as we are ourselves a setter of standards and I'm not sure our practice has been ideal either. Obviously competition is an important spur to efficiency and we should encourage competition wherever possible. But obviously competition isn't always easy.

Moving on to pricing issues, obviously we are pretty interested in those. I think the important starting point is full cost recovery, and that means that the full cost of meeting standards should be included in prices. This means that, where expenditure is required to be incurred to meet an environmental standard, then the costs of those should be passed on to customers, and obviously the costs include the return on capital as well as depreciation and operating costs. If I may say so, I think this is something that governments need to be careful about. I think there have been some recent cases where government at all levels have rushed in to subsidise urban water infrastructure and you might wonder about the wisdom of that, or whether that's not actually distorting what infrastructure gets built or moving us away from the most efficient ways of meeting people's water needs.

Obviously, we say that there have been lots of policies - such as the 1994 strategic water framework; the National Water Initiative; 2010 NWI water pricing principles - so the good thing is said numerous times and repeated frequently but what happens is not always consistent with that. Full cost recovery is important and that does include recovery of all costs, including environmental costs, to the extent that that requires the water industry to incur expenditure. I suppose that's one thing.

The second thing that has been important in our thinking is that the water usage price should be set to be consistent with long-run marginal costs, and we've been reasonably keen on that. I think what that means in practice is that the water usage price should be set at a level that is consistent with the cost of desalination, which often is the next realistic water alternative in our cities. So there should be some sort of consistency between the usage price and the price of making additional water available. There are some more adventurous ideas, such as scarcity pricing, which would suggest that the usage price should depend on the amount of water in the dams, so to speak, but we haven't gotten there yet. So that's water pricing in general.

The second important issue is the role of restrictions and pricing. That needs to be thought through a bit. Obviously we think that restrictions are a problem if they carry on for too long. They have a role, I think, in times of emergency and I don't think we can ignore the strong community support that exists for restrictions. I think that probably is a fact of life here. We will discuss in our submission scarcity pricing in some detail. We think that it should be thought about, particularly at the wholesale level. We're moving into a world where there are different sources of supply and maybe pricing has got some role there in encouraging retailers to choose the right source of supply or, indeed, to consider demand-side options. I think scarcity pricing has a role there in motivating the demand side. So I think that is certainly something that can be thought about.

On the other hand, there are also administrative means of deciding what water gets used when, and it may be that if all we are doing is having one pool of water, so to speak, scarcity pricing at a wholesale level doesn't add much. But I think that's something that is well worth thinking through and we have kindly volunteered to do some of the thinking because we have asked for these issues to be considered at the next round of pricing determinations in 2011. So that's at the wholesale level.

At the retail level, I guess the question is really, more than anything else, how practical is it; how good is measuring? Some people - probably a fairly large proportion of the population - don't have water meters at all at the moment. For example, many tenants do not receive water bills and customers in multi-occupancy dwellings do not receive separately metered bills, and that amounts to quite a lot of the population when you add all of those up. The meters are not very sophisticated; they are read in arrears, et cetera. So I think there are significant practical issues in moving down the scarcity pricing route at the retail level.

Obviously there is scope for better metering and that should be thought about and we should consider the costs and benefits of that, and also we think that there may be scope for innovative pricing options on a voluntary basis and maybe people would be prepared to accept restrictions, for example, in return for lower price, or maybe there would be some people who are prepared to pay a higher price to avoid restrictions. That's worth thinking about and maybe there is a greater range of options that people can be offered.

On our core business of price regulation, firstly we draw attention to the difficulties of small country towns with a declining and ageing population. We've had experience of that because we've recently done a pricing inquiry for Broken Hill, which has all of those issues. Obviously in some cases I would have thought the costs of providing a decent standard of service become too large for the small local community to bear and then we have to think about what should be done in those

circumstances, and we suggest that thought should be given - unpopular and difficult though it is - to amalgamations of local council water businesses to allow scale economies to be obtained. As you're probably aware, there was an inquiry done by Col Gellatly and Ian Armstrong that looked at those sorts of issues and tried to find a way forward.

Obviously, and I think very importantly, New South Wales is a state that has had independent price regulation now for a long time but it's not true of all states. I think it's fair to say we're moving in the direction of having independent price regulation but it's not there yet for all states. One issue that has been raised in this inquiry is whether there should be a national water regulator. That probably is not something that we ourselves would favour, essentially because of the fundamentally regional based nature of water supply, at least in New South Wales. While there are advantages perhaps in having national guidelines, also I think there are advantages in having diversity and competition between states. As I've noted, states are not always doing the same thing at the moment. So our view would be in favour of continuing state based regulation of the water industry.

Finally, on the subject of competition, obviously I think IPART has been a strong supporter of competition through our work that led up to the introduction of the Water Industry Competition Act, so I think we are strong supporters of competition. I think you've got to recognise that there are substantial monopoly elements in the water industry. The most obvious example is the pipes. Obviously you would not want to see competing sets of pipes running down the street, but that's not true of the whole industry and I think there are also substantial parts of the industry that are potentially competitive. For example, I think the actual production of the water could be competitive - water and sewerage treatments and retail supply, which amounts to a lot in value terms when you add those things together.

Obviously there is a range of ways in which competition can be introduced in the industry, some of which already occur and some of which could occur more in the sort of things like competitive tendering, competition to supply the whole market through leasing or sale arrangements, for the provision of new and innovative sources of supply - seeing recycled water in Sydney, for example - and then obviously at the extreme end, competition for individual customers, which might be more feasible for large customers than for small ones. Obviously, as you move to the more difficult forms of competition you need to be careful about assessing the costs and benefits for that.

I think an important starting point is to ring-fence the potentially competitive parts of the industry from the natural monopoly parts, at least in terms of accounting separation so there's clear cost accounting for the potentially competitive parts of the industry. So that sort of completes my thoughts. I don't know whether Colin wants

to add anything.

MR REID (IPART): No, it's fine.

DR CRAIK: Thanks very much.

MR COX (IPART): We're happy to answer questions.

DR CRAIK: Thank you. Thanks for that introduction. I guess just starting with the planning and investment, you indicated cost-benefit analysis is important; you indicated transparency, the looking at all options, the seeking of options from parties other than existing water utilities, and publish all those sort of things; legalise costs of augmentation and demand-side options. Do you think there's merit in going as far as the WAERA suggests, in an independent procurement entity, or do you think it can be done in some other way with some other existing arrangement?

MR COX (IPART): From memory, we looked at water competition in 2005 and I think one of the options that we did then put forth for consideration was an independent purchasing authority, so I think there is merit in that as a possible option. I wouldn't say it's the only option. I think we would probably get a fair way, perhaps through some more careful process, through an independent body within government, so to speak. I certainly think personally that an independent procurement authority is an option that's well worth considering.

DR CRAIK: When you say an independent body within government, do you mean some kind of statutory authority or do you mean part of a department?

MR COX (IPART): I think it should be someone that's independent of particular suppliers and that's probably the most important thing here.

DR CRAIK: Okay.

MR COX (IPART): You could imagine it could be part of, say, a government department. That's a possible model. What obviously is important is to have a process that is fair and can be seen as independent between proponents.

DR CRAIK: Okay, thanks. Do you think that the Water Competition Act has been successful in terms of encouraging competition in water and wastewater? Are you starting to see benefits of that?

MR COX (IPART): Interesting question. I would say that we've seen the start of a more competitive water industry in Sydney. I think an important thing it has done is to provide a regulatory framework to enable private sector recycling schemes to take

place, and some of those have been quite large; for example, the Camellia project is a large recycling scheme.

DR CRAIK: The which, sorry?

MR COX (IPART): The Camellia.

DR CRAIK: Right. What's that?

MR COX (IPART): The AGL used the old gas pipes to create the backbone of the recycle network in western Sydney. That's right isn't it, the Camellia project is - - -

MR REID (IPART): Yes, that's right, it is, and Veolia have a treatment plant as part of that project as well.

MR COX (IPART): That probably would have happened in the absence of WICA through some other mechanism but WICA has provided a useful regulatory framework for that to occur and I think that's been a useful thing to do. We're seeing a number of small-scale recycling plants in buildings in Sydney. It's probably a good thing to have them, on balance. We're also seeing, at the urban fringes, some developers using WICA to construct networks rather than getting Sydney Water to do that. So we're starting to see competition for incremental services on the fringes of the city. It's useful to have a bit of competitive pressure around the fringes, I think.

Also, and just recently, the desalination plant has been licensed as a separate entity, which might point the way for it to have a future outside of Sydney Water, which once again is moving towards the more competitive supply arrangements. So I would say WICA - yes, slow start but it's been useful. That would be my assessment.

DR CRAIK: Do you think there's scope to further improve competition? Do you think there are things that can be done to improve competition or encourage competition even more?

MR COX (IPART): Yes, I think that's probably right. As I was saying, I think the separate licensing of the desalination plant is an important step forward. I think we're getting to a stage where competition becomes a bit more difficult. Obviously a very important issue is the issue of access pricing. As you know, there's an access regime in New South Wales and there is a pricing regime whereby the access price is set at the level of the retail price minus the average cost of serving the competitive elements, so you get the price of the non-competitive elements in that way. That is probably not the most pro-competitive pricing structure that you could imagine. A

pricing structure in which people paid only for the services that they used would obviously be more pro-competitive. It would, however, tend to break down uniform sewerage pricing across Sydney and that would be a difficult issue for the community to accept.

I think probably what we've done so far is to enable competition to take place on an incremental basis. I think it's useful to have incumbent water suppliers such as Sydney Water facing a competitive threat. We're probably getting to the stage where, if we want to jump-start competition, we've got to face up to some pretty difficult decisions and you wonder whether the community really wants to do that.

DR CRAIK: Do you have a view about what you think the most appropriate structural arrangement would be for the urban water sector, say in the metropolitan area?

MR COX (IPART): Yes. To go back to something I said before, I think it's important to at least separately account for, the competitive and the non-competitive parts of it. I would have thought the non-competitive, you'd have a network business. Obviously there's been much discussion about whether Sydney Water's network should be split into several parts. I think our view has been that you should embark on those sorts of structural separations only with very great caution, because what you then do is divert the attention of the organisation just to that question for several years and you may lose other opportunities. So I think the structural break-up of Sydney Water is something to be thought about with a great deal of caution. Less clear to me actually is the catchment authority, whether all those dams really belong together or whether there couldn't be more than one dam supplier in Sydney. I don't have a view on that, but it strikes me as an interesting issue to consider.

So if you ask me where might we end up, it might be with a number of suppliers of water, perhaps as you mentioned with independent purchasing authority of some kind or another. You might probably have a network business distributing water around. Treatment plants would be more competitive perhaps. And you might see competition, particularly for larger customers, and the provision of innovative services. If you're trying to imagine where we might be in 10 years' time, that's the sort of thing you might think about.

DR CRAIK: Do you have a view about regional New South Wales?

MR COX (IPART): Regional New South Wales.

DR CRAIK: An ideal structure.

MR COX (IPART): The obvious opportunity there is the Central Coast water authority. It's about to be created, is it?

DR CRAIK: This is the Wyong-Gosford - - -

MR COX (IPART): The Gosford-Wyong one, yes. Having that existing, with the combination of licence regulation and pricing regulation from ourselves, will be a useful move forward. Also, I think we'll see through time greater evolution of interaction, if you like, between the Central Coast and the Hunter in terms of water supply. I think that's probably the way things will go.

Outside of metropolitan New South Wales, we have a large number of rural water suppliers. As I think I said earlier, some of them are probably too small for the responsibilities they have to assume and we need to think about how they can be supported through that. I think some process of amalgamation, probably preferably through voluntary agreement rather than forced amalgamation, to form large rural water authorities would be a useful thing if we can find a way to do that through time. While I wouldn't want to suggest that they would be subjected to the full IPART process, I guess our experience with Broken Hill shows that perhaps a limited amount of involvement through price regulation is a useful thing.

DR CRAIK: Do you have a role at all in setting the regional water - in the regional water pricing already?

MR COX (IPART): No. Other than, we do Sydney, Newcastle, Gosford, Wyong and Broken Hill.

DR CRAIK: And Broken Hill - significantly.

MR REID (IPART): A number of years ago we did put out some pricing principles for local water authorities. That drew on the COAG work, and the Office of Water drew on that work of IPART's in coming up with some of their best practice pricing principles, but we haven't been involved in the development of those nor any review of those.

DR CRAIK: Okay. I notice you've moved to the volumetric charges as one price in Sydney, but in Broken Hill you've still got a two-tier price.

MR COX (IPART): Yes.

DR CRAIK: Why? You've changed from an inclining block tariff of two steps to a one-step and you've still got two in Broken Hill.

MR COX (IPART): That's true. I think in Broken Hill we thought that a move from two to one straightaway might be too much of a change too quickly, because you've got to move one up or something to equalise them, and so we thought we'd phase it in over a couple of determination periods. But I think if you read the report the intention is fairly clearly to move towards a single volumetric charge.

DR CRAIK: I'd like your views on five-yearly price determinations. Is that too infrequent? When you think about things like interest rates and how they can change very rapidly over a very short period of time, or even water availability - well, probably not so much now with desal plants, but certainly in the last few years we saw an extraordinarily rapid change in availability. So is five years a good time? Is that too long?

MR COX (IPART): My guess is that five years is about right. I think you've got to balance two things. Obviously, the longer the price control period is, the greater the ability of the organisations and their incentive to make efficiency gains. So it does suggest it shouldn't be too short. On the other hand, as you said, water has been a rapidly changing area in recent times and policy, environment, has been changing rapidly, and you sort of think too long a determination period may just lose touch with the rapidly changing reality of it all, so I think it's a compromise between those two things. I think we do four years.

DR CRAIK: Four?

MR REID (IPART): Yes.

MR COX (IPART): Sometimes I think we've done shorter periods. I do think though we've got to bear in mind that these are very long-lived assets, and whether it's four years or five years, well, that's a short time in the life of the asset. You've got to somehow also, I think, have a longer view. While it can't be a very firm view, at least give the community some sense of where it's all going so you don't just see life in sort of short four-year chunks, one succeeding the other.

MR REID (IPART): I think part of it is who is best placed to wear the risk, if you like. For example, we've had a situation in the drought where Sydney's water sales, volumetric sales, have dropped quite significantly. That's obviously had an impact on their bottom line. We looked at dead bands and how you would better manage that situation, whether there should be some catch-up in a subsequent period, et cetera. So there are various techniques that you can use, regulatory tools that are available to better manage those risks, but at the end of the day I think it's who is best placed to bear some of those risks.

DR CRAIK: Okay. How do you make decisions about the split between

volumetric and fixed components of pricing? What's the rationale for that?

MR COX (IPART): The normal way that we think about that is to try and work out what the long-run marginal cost of water is, and that's the cost of making additional water available divided by the amount of additional water that's made available. You set the usage charge to that. So that's step 1. Step 2 is to work out what the current costs of providing water are - efficient costs this is, so we go to a lot of trouble to establish as best we can the efficient costs of providing things that society wants to see provided. So you've got those total costs. You've worked out what can be recovered through the volumetric charge and then the fixed charge is the thing that makes up the difference.

DR CRAIK: Is the IPART building blocks approach to pricing aligned with long-run marginal cost pricing?

MR COX (IPART): I think so. What the building blocks tell us is what are the total costs. You've got, if you like, a number of obligations to meet - price of a desalination plant or something. You then work out what the costs are of achieving those requirements, you work out what the minimum costs are, and that gives the total amount to be recovered. It's recovered out of two charges: one, the usage charge relating to long and marginal costs and then the fixed cost which is the balancing after, if you like. So it adds up to the full cost, but the usage charge reflects the long-run marginal costs.

DR CRAIK: Okay.

MR REID (IPART): So traditionally, long-run marginal cost has been less than the average cost. So there has been a gap which has been recovered through the fixed charge.

DR CRAIK: Yes, okay. How do you calculate the asset base?

MR COX (IPART): Well, this has been an issue of much controversy, as you can imagine. There is one view which I do understand, and that's the engineering view, which is that what you should do is base the asset value on the replacement cost of the assets. The difficulty with that is that if you were to do that, say, for Sydney Water's network, you would find that prices would have to rise by several times the amount they are at the moment and you might just wonder whether the community is up for that. So I think we, and I think it would be fair to say most other water regulators, have not based asset valuations on engineering valuations. This contrasts, for example, with electricity where typically engineering valuations are used but in water they tend not to be for the reason I have said.

It is also worth noting that in the case of water most assets will be renewed, maintained; they're not replaced. You can see what happens: they sort of wrap new pipes around old pipes rather than completely replacing the part. So for those reasons, we have gone down the route of determining what we call a line in the sand asset valuation. Obviously there is a degree of - what should I say? - judgment in that. I guess when we did it, we took a view on what were reasonable price increases that we thought the community would accept, and then we set an asset value that was consistent with our view about what future prices could be at the time.

It is important to note that the line in the sand just relates to existing assets, not to assets that are created in the future. So there was, I think, an element of judgment as to what would be an acceptable number to choose for the existing assets. So that established a line in the sand; I think in 2000 we did that.

MR REID (IPART): 2000, yes, for Sydney Water.

MR COX (IPART): Yes. Subsequent to 2000, we have added onto the asset value, assets that are replaced, at the cost of replacement and at the same time we subtract depreciation and we also make adjustment for inflation. So the asset base has moved forward on that basis. So, if you like, existing assets are less than replacement cost; new assets are at replacement cost; as assets get replaced, yes, their value will rise through time. In the limit, if all assets were replaced, you would end up at an asset valuation that was at replacement cost, but it probably won't happen that way.

DR CRAIK: I can't see them replacing too many dams.

MR COX (IPART): Yes, quite. I have to say in the valuation of assets that existed at 2000 there was a strong judgmental element. I think what has been important is that we have respected our asset value in subsequent determinations. We have accepted that was the value and moved it forward consistently. I also think through time the asset value, which may have been a bit of a shock to Sydney Water at the time, has come to be accepted as a reasonable way forward and I think we're seeing greater acceptance of it by the utility themselves and by people like the Auditor-General.

MR REID (IPART): There are two essential concepts - one is financial capital maintenance; one is physical capital maintenance - and I think we drew a little bit on what had happened in the UK when the water industry was privatised there. There was a value worked out, based on the stock market value of the firms at a point in time. Our equivalent to that was to work out, based on the prices that prevailed in the year 2000, what the economic value of Sydney Water was and through this process of adding on the actual amount that is then spent both for new assets and replacement of existing assets, while allowing for depreciation adjusted for that

financial capital valuation, we have maintained the financial investment, if you like, in the firm. And that's essentially the approach that has been adopted. So what we're trying to do there is to give the correct signal for new investment, rather than base prices, if you like, on sunk investment.

DR CRAIK: Thank you. Jim, you have talked a bit - and you talked in the submission - about elasticity of demand and price. Do you have a particular view about elasticity of demand, indoor and outdoor, in New South Wales or elsewhere? You have suggested that a lot more work needs to be done before perhaps we go into something like scarcity pricing. Who do you think is best placed to do the work to look at that?

MR COX (IPART): I suppose the people who have got the information are the water utilities themselves. They probably are best placed to form a view. What do I think about water elasticity? I think it's fair to say they are low; probably higher for outdoor use than indoor use, but I think all the evidence suggests that it's pretty low. Obviously in recent years there have been water restrictions which probably add to the difficulty of uncovering what the demand elasticity actually is because people are at a low level of usage because of the restrictions, irrespective of the price, if you like. But I think there is a lot of evidence around the world that suggests it's low. It might have been minus 0.1 or minus 0.3 or something. Whichever view you take, it's pretty low.

DR CRAIK: Yes. In your submission, you're talking about scarcity pricing and you made the comment that:

> At present, in the absence of restrictions, there are strong financial incentives for a retailer to sell more water without consideration of short-term supply shortages.

You sort of imply that that's perhaps not desirable. That might not be your implication, but isn't that what an urban utility, what a water utility is set up to do - to supply water and encourage people to - I mean, that's a normal function of an organisation.

MR COX (IPART): Yes. The interesting thing about Sydney Water is, it actually tells people not to use its product.

DR CRAIK: That's right.

MR COX (IPART): You point to the financial incentive, but what they do is not necessarily in line with the financial incentive that faces them, which is interesting commentary on the incentives facing government-owned businesses. What we

would say is that demand management is a source of additional water and you would probably want to have arrangements that are not too unfavourable to demand management where that is the best source of additional water. So you would probably worry about too large a disincentive. I certainly agree with the comment that the financial incentives do not favour demand management at the moment but in our present political environment Sydney Water is pretty keen to tell people not to use its product, even though they would make money if they did.

DR CRAIK: If they used more, yes. Scarcity pricing for those people who are happy to pay more, or some kind of scarcity pricing, seems more flexible pricing, I suppose, or are we moving towards the pricing option - you know, options on pricing - that you referred to?

MR COX (IPART): Yes. It's possible that there is a group of customers that would welcome alternative options.

DR CRAIK: What are the impediments to moving towards that right now?

MR COX (IPART): I'm just trying to think about that. I think there's probably an issue of community acceptance, if you like, of, "Would it be okay for people to buy their way out of water restrictions?" I think some people would disagree about that. I suppose the other issue is, if you're going to have someone with a guaranteed supply of water, well, then it costs something to provide that guarantee, and we don't have arrangements that are particularly attuned to working out what that is.

By contrast, when we look at irrigation water, that's high-security water for example, which is more expensive and we have had interesting times working out what the cost of that is, and I notice that the irrigators on the Gwydir don't particularly agree with it.

DR CRAIK: I don't think they'd be the first, as I recall, from my days with the MDBC.

MR COX (IPART): No.

MR REID (IPART): Just on that, too, Jim mentioned earlier about the transaction costs, the fact that not everyone is metered. The meters are read quarterly in the case of Sydney, quarterly in arrears; in the case of Hunter, every four months in arrears; and so there's no immediate signal that's being put to people. Whilst studies are being done on smart metering, et cetera, at the moment, and the water industry is piggybacking on the electricity industry to some extent to look at what may come of that, at this point in time there are quite significant transaction costs.

DR CRAIK: What about postage stamp pricing? Do you think there's merit in moving away from that, and if you did, do you have a thought about how that might be done?

MR COX (IPART): It's a judgment between the advantages of encouraging competition and I think probably the very strong belief in the community that, if you're all customers of Sydney Water together so to speak, you should pay the same price. I think it would be very difficult to have Sydney Water charging different prices say in eastern or western Sydney, though there is some rationale for doing that in terms of cost recovery. So I think it's a political social judgment, but my observation is that most businesses are very keen to have uniform pricing, at least for a particular group of customers, so uniform pricing for residential customers. We're seeing, for example, when electricity businesses have been amalgamated the first thing they try and do is to establish a new common tariff, so I think it's a very strong belief that we shouldn't make those distinctions, at least within the same water authority.

DR CRAIK: Is this all about equity and things like that?

MR COX (IPART): Yes.

DR CRAIK: Or at least someone's perception of equity.

MR REID (IPART): Yes. IPART has made determinations for developer charges, so that was for new developments, but the intention there was to give a signal of the cost of provision of new services and at the same time for existing club members, if you like, to maintain that postage stamp periodic price. Under the IPART Act, IPART sets the maximum price. The government can set a lower price with the concurrence of the treasurer, and the government decided, in the case of Hunter and Sydney Water, to set that developer charge at zero. So at this point in time the price signal that was coming from developer charges has not been reflected.

DR CRAIK: So existing residents are subsidising new residents.

MR REID (IPART): Yes. But this is caught up with the housing affordability and various other broader considerations that were taking up government's time.

DR CRAIK: Thank you. Your measuring answer may be the response to this, but do you think there's any scope for gains in efficiency through time-of-use tariffs, like trying to remove peaks from demand and reducing the required design stamp for infrastructure.

MR REID (IPART): The electricity industry is very much driven by peak demand

and, because you can't store electricity, it affects not only your power production but also your transmission and distribution. Obviously in the electricity industry that's very much at the moment driven by airconditioning loads and all those sorts of things. I think the water industry is probably more driven by average demand. It's not so much peak demand driven as the electricity industry, and a lot of the electricity price incentives to encourage people to reduce their peak demand effects in fact flow on to the water industry, such as washing machines.

DR CRAIK: Washing machines, yes.

MR REID (IPART): And dishwashers and various other things. So to that point of view, once again the water industry is piggybacking on the pricing coming from the electricity industry.

MR COX (IPART): Water is more seasonal, isn't it? The scarcities are seasonally related - - -

DR CRAIK: I suppose that's right.

MR COX (IPART): - - - rather than time of day.

DR CRAIK: Well, I suppose everybody has a shower first thing in the morning. But, yes, you're probably right, there is more of a seasonal - - -

MR COX (IPART): And water can be stored.

DR CRAIK: Yes, that's true.

MR COX (IPART): Which is an important difference.

DR CRAIK: Yes. You mentioned a national price regulator and your views about that. Clearly water, even now, is becoming increasingly networked. I mean, at least in theory, you can go from Brisbane, I suppose, and Toowoomba, down to Canberra, Adelaide and Melbourne through a system. You can't go both ways all the way, but there are a lot of links now. Do you think as that happens there would be a reasonable case to move towards fewer economic regulators?

MR COX (IPART): I'm not convinced of that. Firstly I think it's fair to say our perspectives are New South Wales related and New South Wales, Sydney, is in a basin and probably interconnection isn't a big issue in Sydney. I would say that the bulk of the costs, after all, are in locally based networks and that's probably where the bulk of the regulatory effort needs to go. I think we have been fortunate in Australia that we try different things in different states. The obvious example in

New South Wales is the Water Industry Competition Act, which was a New South Wales initiative that seems now to be being copied elsewhere; obviously a number of states experimenting with independent price regulation, and that is now going to be adopted elsewhere. So given, I think, the essentially regionally based nature of the costs and the advantages of diversity, I wouldn't think we should rush towards national regulation. Maybe one day it will make sense, but it's probably a bit premature.

DR CRAIK: A bit far away. Thank you. What about health and environment? Do you think there's scope to rationalise regulation there a bit?

MR COX (IPART): Let's see. I mean, health, there are national guidelines anyway.

DR CRAIK: Drinking water guidelines and things.

MR COX (IPART): Drinking water guidelines and so on. There's a nationally based approach which is then applied by state government health departments. I think the state government health departments are the ones on the ground. They're obviously closer when some sort of water quality incident occurs, so that's an advantage, I think, of that method. Environmental standards are largely locally based. It's not like carbon emissions, for example. The nature of the environmental impact is essentially local, so while we remain a federation I think that should be locally based.

DR CRAIK: Locally done. Okay. All right, Jim and Colin, thanks very much for appearing and thanks for your submission. We look forward to the filing of the submission. Now we have a break for morning tea. Please feel free to stay. We'll resume at 11 o'clock with ACOSS.

DR CRAIK: This morning we have, from the Australian Council of Social Service, Tony Westmore. Tony, if you could state your name and the organisation you're representing for the record - - -

MR WESTMORE (ACOSS): Sure. I was about to go and get my form and fill it in.

DR CRAIK: Sorry.

MR WESTMORE (ACOSS): That's okay.

DR CRAIK: And then if you would like to make a brief statement, we'd be more than happy to hear it.

MR WESTMORE (ACOSS): Tony Westmore, senior policy officer at the Australian Council of Social Service. I'll come back to the question of resources later on in the piece, but I just wanted to be clear that ACOSS is keenly interested in this area of work but our resources don't extend to being able to address the issues as comprehensively as we would like, and so this is a bit of a place-holder in a way. I suppose our interest is critically about two constituencies, one of which is low-income households, the two lowest quintiles of income as measured by the ABS and particularly people who are in the lowest quintile of income and particularly those on pensions and benefits. There is a related constituency which is the community welfare sector, our membership, our associates in whom we have also got a keen interest.

Some of the perspectives that I'm trying to bring this morning derive from our work in energy markets over the course of the last five years. The parallels aren't exacting but there are some. So I'll begin there and say, not in a glib way but quite genuinely, be careful what you wish for. I spent four hours in a meeting yesterday with a bunch of retailers and distributors at the kind of intersection of their businesses in smart metering kind of issues, and the set-up that we have established here in Australia, for whatever combination of reasons, is unique and not necessarily helpful to us. The distinction between retailers and distributors is something that is becoming increasingly amorphous, but the fact of the distinction is one that may in fact be increasing costs to consumers.

I understand that you're intending to do it but I would certainly suggest that you look to lessons from early movers - for example, Melbourne; from other sectors, particularly energy; and also internationally. It's reassuring in the issues paper, which is what I'm going to try and refer to a bit this morning, to see that marketisation, as I'll characterise it, is a tool and not a goal in its own right, and you might contrast that with some energy sector reforms. I'm not an economist but I

would suggest that some of these questions - and it may be the perspective I'm trying to bring this morning - is that what's valuable is keeping it simple.

The question of efficiency may well be about economic efficiency, but I'm kind of interested to know why. There may be some issues in urban water systems - the kind of supply and delivery of water - that are much more readily identifiable and possibly much less expensive to fix to much earlier outcomes; like leaking water pipes, for example. So I understand that there need to be regulatory and institutional structures around those sorts of things but, in terms of costs and benefits, maybe some of the problems are not so complex as we imagine.

I wanted also to highlight the question of ownership of water and of water delivery systems, wastewater systems and so on, and just to ensure that there's some kind of focus on the question of whether we are citizens or consumers or customers and to highlight the fact that, once again, this is public infrastructure that looks like being on the verge of being privatised and to suggest that lying in wait are carpetbaggers and scoundrels and thieves aplenty. Which gets me to my next point, which is that there's an extent to which some of us are a little bit weary of the mantras of competition and contestability and the identification of success in competitiveness through the metric of something as kind of fundamentally not clever as churn.

Victoria has the hottest energy market in the world, we're told, again and again and again, as measured by the number of customers who switch retailers with little regard, for example, as to whether those customers might actually benefit somehow from a better quality of service or a lower tariff. It may be that it's glaringly obvious, but one of the things that I'm interested to know is, we move to what objective governments should have for the urban water sector, and is there a strong case for reform and how large are the opportunities for gain? But one of my key interests is, what's broken? What's flawed? Where are the risks that we have identified and what can we do about them? Then who is best placed to do them?

So, "Do we need to reform the sector?" is probably a good question, but I'm wondering about the sector as it stands now and what's wrong with it including, for example, what looming issues there might be in terms of the resilience of providers at the moment: whether that's about labour force or skills or ageing infrastructure, their financial ability; and some other things like climate change and the risks that it might present and what we're doing about those kinds of things.

Setting objectives on page 14, that water is an essential service and that we're about "ensuring that all households have access to and can afford a minimum level of water service", we would suggest, very clearly, that a reasonable level of water services is what is required, with reference to the characteristics of the household and

the house itself. On page 16 you talk about "the scope for welfare-enhancing reform". That's an interesting choice of words - "welfare" - and particularly with regard to the continuum that I expressed before: the difference between citizens and consumers and customers and whereabouts people fit, especially if it extends to people who are shareholders.

You list some characteristics of the market in that part of the issues paper. I would add two, one of which is that the market, the products and services in the market, is dynamic. I think one of the things that has become really, really clear from the energy markets, when they began to be designed 15 years ago and where they are now, is that the complexity in products of services that are on offer is unimaginable. The idea that customers would be suppliers in the market was barely imaginable but the pace at which that change is happening now is a really significant feature of the market.

The other thing that I think may be obvious but not stated is that water is relatively low cost - and I'm wary of saying that because I'm interested in people who get 230 bucks a week in unemployment benefits. It is a relatively low-cost commodity but it's an extremely high-value commodity and I think that's worth paying attention to.

When we get to the issue of efficient pricing at page 23 and talking about "enabling universal access and affordability for consumers", in our view affordability somehow or other needs to balance fair and cost-reflective pricing, community service obligations and people's capacity to pay; so how much money is in their back pocket. I'll come back to that in a minute. The next dot point down says something about -

> encouraging the use of water and wastewater services by users who value them most highly and in uses that are most highly valued.

Given that water is an essential service, I think that raises a whole lot of interesting questions. There's a tension between that benefit and the one above and we are wary particularly of resources going to the highest bidders. So does the highest value attributed to a particular resource imply necessarily the highest price for it? At "equity", which is kind of our core business I guess, "Is equitable access to water and wastewater services a significant issue?" Yes, simply. And, "What groups of consumers are particularly vulnerable and why?" Generally speaking, our interests run to low-income consumers and their capacity to pay for water and water services, but I would highlight as well that there are some - I think the new term is "spatial" kind of considerations that need to be taken into account: geographic disadvantage; people who are at the end of grids and those sorts of things; people who are in areas particularly harshly affected by drought.

Water now kind of slots into a much bigger basket of concerns about the cost of living. It's difficult to pull out water in some circumstances from rent, for example, and it's difficult for us to get a grip on whether the ABS is measuring expenditure on water separately - those sorts of things - but any increase in price for an essential service has an impact that is immediate. That is the kind of take-home that I would leave you with there. We are doing what we can to address affordability for essential services, particularly through the tax and transfer systems, but I would highlight something here which is that currently the adult pension is about $350 a week, the adult unemployment benefit is about $230 a week. One of the differences in that 120 is a thing called the "utilities allowance" which does not get paid to people on unemployment benefits. It's worth about $10 a week, $500 a year, and it would go some significant way to helping people pay their bills.

Equity and social objectives to be pursued: how should they be paid for? What are the costs and, "Are water restrictions and other non-price demand management measures including inclining block tariffs and postage stamp prices equitable?" It is an essential service and the costs and benefits of not meeting social and equity objectives need to be considered, as does the risk of not acting to ensure that the services are delivered to all consumers. We would suggest that postage stamp pricing is a good idea, particularly with regard to what I just said about spatial disadvantage. It is an essential service. What you might do is have a postage stamp price apply to a reasonable or minimal amount of consumption and then have inclining block tariffs that paid some kind of heed to local characteristics.

I will just mention there that I know in Brussels particularly, or Belgium more generally, water pricing is actually based on household characteristics, and that might be worth your while to investigate a little further. With regard to the impact on price reforms or other reforms, it's simply the case that they have got the potential to improve equity or reduce it. Then, finally, at governance and institutional frameworks - this is where I'll wrap up - customer and community advocacy groups are listed last and ACOSS certainly welcomes the commission's interest and particularly the encouragement that we have had to participate, but I will say unambiguously that there are no resources available to community customer advocates in this sphere, in stark contrast with the at least reasonable attempt to support demand-side engagement in the market for electricity and gas through the consumer advocacy panel, which is funded by a levy on customers.

Finally, I will hand this over. It is interesting to me because it has just hit the parliament this week, and there are two things, one of which is about time. Energy market reform began - I don't know how long ago - when Fred Hilmer put pen to paper, but arguably one of the last legislative bits of it fell into place in the South Australian parliament last week, and it's the National Energy Retail Law and Rules.

It's unlikely to be effective, depending on how you regard that. It's unlikely to begin to be implemented until 2012. It's unlikely to be effective in terms of encouraging cross-border consistency in regulatory environments for retailers probably until 2020, if not later on.

I will leave you with a copy of it, partly because it indicates the kind of range of issues that you might need to be dealing with but it goes back to my initial point about what's broke and how do you fix it, and if what's broke, at least initially in terms of efficiency in water supply, is leaking pipes, then I can't tell you how many squillions of dollars went into producing this bit of legislation that may or may not pay dividends for Australians, but it may be worthwhile just to keep it simple. Going back to that thing about customers, that bit of legislation derives from a thing called the Australian Energy Market Agreement, which I will leave you with a copy of as well. It has to be said that, apart from measures of competition and its effectiveness that refer to "churn" as a kind of key metric, the consumer is not especially visible in this bit of Council of Australian Governments' work. I will leave it there.

DR CRAIK: Thanks very much, Tony. Thanks for your submission and thanks for the little light reading you are leaving with us. You have certainly made the point that while water and sewerage costs are relatively small - the proportion of household expenditure is less than 1 per cent or around 1 per cent seems to be the figure that's used.

MR WESTMORE (ACOSS): Yes.

DR CRAIK: But billings are only quarterly or every four months or something, so that means bills can actually be quite large, relatively large. Do you think more frequent billing would be appropriate or a good way to go?

MR WESTMORE (ACOSS): More frequent billing is complex if, for example, people are being charged for the issuing of a paper bill at whatever, two or three or five dollars. If people are being charged for making a payment other than through direct debit, that can increase the costs quite significantly. There are ways of smoothing bills just through retailer arrangements so that people make a regular payment either by direct debit or through some other means that may make things better and then still get issued with a quarterly bill that sets out the ups and downs. And, similarly, through Centrepay, you can make an arrangement for a deduction from your pension or benefit that can certainly be useful in keeping the big glitches out.

DR CRAIK: So you're saying those things are already in place?

MR WESTMORE (ACOSS): In energy markets. I don't know the extent to which

they're in place with water markets.

DR CRAIK: Okay.

MR WESTMORE (ACOSS): That's some of the detail - the devil in the detail - with the National Energy Retail Law and Rules; some stuff about payment cycles and collection cycles, and impacts that they have on customers. I think some of that work has arguably, at least conceptually, been done.

DR CRAIK: The volumetric charge has the possibility of fluctuating quite significantly. I mean, there are those mechanisms you just mentioned, but do you think it would be easier to provide or better to provide concessions on the fixed charge of water pricing rather than the volumetric charge, when you're looking at providing subsidies or concessions for low-income groups or disadvantaged groups; so if you focused just on reducing the fixed charge rather than the volumetric so that at least the price signals for using a lot of water still flow through?

MR WESTMORE (ACOSS): Well, except to the extent that using a lot of water is a function of the characteristics of a household, so if you're a large family, for example, or if you're somebody with some particular health issues that rely on large amounts of water, there ought to be a mechanism in place through a community service obligation that takes account of that. I suppose one of the issues with the two kinds of charging is that retailers - whoever is issuing the bill - will seek to ensure that their revenues remain stable or increase and so, in driving down consumption, you are unlikely to actually drive down the total billing. You might kind of move it around a little bit. So I think our view is that it's about the total quantum of the bill. There may be some other social policy objectives - you know, increasing efficiency, reducing consumption - but there are instances in which that's not just or reasonable.

DR CRAIK: Okay. You don't seem terribly enthused about the notion of scarcity pricing, I suppose would be how I'd interpret it; you don't express a great enthusiasm for it. But there is a suggestion that it might make it possible to defer a major supply augmentation and therefore subsequent costs to the community. Do you think scarcity pricing has got any benefits at all?

MR WESTMORE (ACOSS): For households and particularly low-income households? I figure it would be marginal and it could well be detrimental. They're the observations that I'd make. If it's about last resort, so if we have researched and worked our way through alternatives and got a kind of fair and reasonable assessment of the costs and benefits of different courses of action - increasing efficiency, augmenting supply, doing something with the network - but no, as a rule, for households I'd have thought it wasn't a goer.

DR CRAIK: What's your view about restrictions?

MR WESTMORE (ACOSS): They've been effective. They've been effective. They have postponed the need for augmentation in some - - -

DR CRAIK: But the cost to people who like their garden, or that's their only form of recreation?

MR WESTMORE (ACOSS): I do understand that, but it's a sunburnt country and my garden that was on the verge of death five years ago is looking pretty good just right now. We need to take account of the circumstances in which we have been for a long, long time and make adjustments as necessary, so that kind of assessment of what is a minimal or reasonable amount of consumption for a human being in a set of circumstances is something that might change a little. My understanding is that in some communities we've dealt with the supply problem.

DR CRAIK: What about, say, the ability for a large family with lots of kids on a really hot summer's day to play under the sprinkler? They don't have lots of money to go out and do something which costs money, so they stay at home and play under the sprinkler.

MR WESTMORE (ACOSS): Exactly.

DR CRAIK: With restrictions, the cost of doing that - I mean, that's precluded.

MR WESTMORE (ACOSS): If we introduce critical peak pricing to the electricity system and people are paying whatever a megawatt hour to run their airconditioner, they may make a choice between two evils and go with the lesser of them. I understand what you're saying and, as I said, for low-income households in difficult circumstances, confronted with a bill or disconnection or having the dribble, there ought to be appropriate and accessible ways for them to be assisted.

DR CRAIK: You've raised the issue of customer churn in Melbourne - you know, switching suppliers. Isn't that their choice to do that if they want to do it? I couldn't quite follow your argument. It's their choice to do it. If they don't get any benefits, well, that's their problem, isn't it?

MR WESTMORE (ACOSS): Well, no. If you're dispatching fairly heavy-duty doorknockers to low-income, non-English-speaking, fairly recently arrived migrant communities in a bid to sign them up to contracts that they don't fully understand, I don't know necessarily. But the simple fact that you measure the success of a policy simply by virtue of the number of people who say, "I'm going to go from this retailer to this retailer," without a benefit, I fail to see the logic in that. We've introduced

competition - woo hoo. We're paying some more CEOs a lot of money - woo hoo. But if, in switching from retailer A to retailer B, the customer pays a higher bill than they would have if they'd stuck with retailer A - and the verdict is out here; I don't know that there's been especially high-quality research, but the verdict in the UK is in, and significant numbers of people who do churn are disadvantaged as a result.

DR CRAIK: Do you have a view about the ideal customer hardship policy. Does ACOSS have kind of a prescription for what's a good customer - - -

MR WESTMORE (ACOSS): Collectively, consumer advocates are working now with the Australian Energy Regulator to develop some guidelines. The committee from Melbourne did some work around energy poverty and has developed some principles for hardship programs, which I'm happy to provide you with a copy of.

DR CRAIK: I think that would be useful if you could, yes.

MR WESTMORE (ACOSS): Yes, I'm happy to do that. One of the wins, arguably, that we had as a group of consumers is that retailers' energy hardship programs would be subject to assessment by the AER before being put into effect and would be reviewed, so we think that's a good thing. There are some models, and I think one of the things that we've learnt over the course of the last five years or so is that there is a business case for retailers and other businesses in running hardship programs. The benefits outweigh the costs in a whole range of ways and there is now this kind of notion that running a good hardship program gives you a competitive edge, so some retailers are now seeking to use their hardship programs as a way of demonstrating community responsibility as a contribution to their triple bottom line.

DR CRAIK: In terms of having organised consumer advocacy arrangements, do you have a view about how that is best done? Is it an ombudsman, is it the utility having an advisory group, or is it some other kind of arrangement?

MR WESTMORE (ACOSS): It's probably a mix of all things. What I'm most familiar with is what happens in energy, where there are independent ombudsmen in each of the jurisdictions - well, more or less independent. Most of the retailers and some of the distributors do in fact have customer advisory councils, and I'm fairly sure it's a requirement of the new rules that they do do that. Similarly, the AER, as a result of the new legislation, has constructed a consumer consultative council for itself, but those groups are, in my observation, made considerably more effective as a result of having a kind of independent - however it's organised, and I'll be honest and say that in the energy area it's not anarchic or necessarily - well, chaotic is probably not a great word, but it has grown up in a funny sort of way over recent time and reflects some organisations that had a strength in the area and some others that are up

and coming.

We proposed to the government in its previous incarnation a short-term advocacy project to do some learning and try and build some expertise in this area, with a view to urban water reform partly, but some stuff that's going on regionally as well, notably the MDA, Murray-Darling, kind of stuff - unsuccessfully. So I think that there is a case for trying to build consumer interest and some skilled advocates, consultation mechanisms, to build interest in this thing. It's a kind of big and complex issue.

DR CRAIK: Do you think that should be funded by the water utilities or government, or who?

MR WESTMORE (ACOSS): I'm agnostic. I think possibly initially - and there's a model in telecoms, which is that the government funds the Australian communications crew, but in energy markets - and it's particular to those areas, those jurisdictions, that are a part of the energy market, so Western Australia is included for gas but excluded for electricity - I did the sums recently. It's 24 cents per account holder for whatever it is, $3 million worth of advocacy that is bought. So doing it that way - and there's a market institution, the AMC and AEMO, that permit that to happen - as long as it's fairly and reasonably administered, is probably an okay way to go.

DR CRAIK: Okay. I think you've pretty much covered everything else that I wanted to raise. You did speak about pricing options, didn't you, where you give customers a choice of - or did I ask you?

MR WESTMORE (ACOSS): You did, yes.

DR CRAIK: I can't remember after a while if I've already spoken to you about it.

MR WESTMORE (ACOSS): That's okay.

DR CRAIK: Then I think we're finished. Thanks very much, Tony. Thank you for your submission and thanks for those extra documents.

MR WESTMORE (ACOSS): I'm happy to answer any questions.

DR CRAIK: Thanks a lot.

DR CRAIK: Our next group appearing is Mr Phil Krasnostein, technical director of Nubian Water Systems. Welcome. Thank you for your submission. If you could introduce yourself and say the name of the organisation you're representing, and if you'd like to make a few opening remarks, that would be great. Thank you.

MR KRASNOSTEIN (NWS): Thanks very much. I apologise, I'm just getting over a cold. My name is Phil Krasnostein. I'm the technical director of Nubian Water Systems. We're a small water treatment company based here in Sydney and our principal focus over the last several years has been on the development and commercialisation of technology in water recycling specifically, or most specifically in domestic and commercial greywater recycling which is quite relevant to the urban water sector.

While I haven't tried to address our very specific circumstances, I think our circumstances reflect those of generally the market and the market particularly for what I have referred to as "distributed water systems". That's where my focus has been in this submission. Distributed water systems, in a very simple sense, are those that are not infrastructure water systems, so therefore they cover a range of applications and sectors, and principally would be systems that are either known as on-site systems - in other words, systems that are wholly contained within their operating site - or systems that might be dealing with relatively small groups up to perhaps small communities, large subdivisions, and they would cover areas of both the provision of drinking water and also for the treatment and recycling of various kinds of wastewaters.

The value of distributed water systems is, I think, being increasingly recognised in the community from a range of perspectives and the principal benefits really are provided by the scale of the systems which leads to flexibility - they're able to be delivered quickly; able to be delivered where the problem exists - and in the circumstances that we find ourselves today of decentralising populations, shifting climate patterns, the role of the typical large infrastructure provision of water services is perhaps not quite as ubiquitous as it has been in the past. I don't think there's anything new about that and distributed water systems are emerging globally as an important part of the jigsaw puzzle of dealing with water issues.

While it may not be the largest consumer of water in Australia - in most places of course irrigation and agriculture represent the largest part of the water sector - the urban water sector of course represents 100 per cent of the water sector within the urban environment, and that's where the people live. So it therefore becomes a critically important thing to find additional solutions to the increasing pressures that the various population centres are under. That is, I guess, the background to distributed systems and, in a very quick sense, why they're important.

The situation that the industry finds itself in is very much one of - I guess in simple terms - having to bang one's head against an increasingly thick and high brick wall in trying to implement systems regardless of whether they're greywater or any other kind of distributed systems in the Australian context. There are a couple of prevailing reasons for that. The first is a market-related issue, in that generally the water industry, the water market, has been dominated by monopoly incumbents, or near monopoly incumbents. Monopoly incumbents behave like monopoly incumbents so they're not particularly welcoming generally of competition. When it's structurally built into the system, that in itself makes it difficult.

In my view, it is not by any means the most important hurdle that the industry faces: I think the most important hurdle that the industry faces is clearly the regulatory environment. The regulatory environment in Australia is bizarre, to say the least. I might just spend a moment perhaps talking about what that environment is and how it's structured. Water is regulated in Australia on a state-by-state basis so, at the very minimum, you might think we have seven regulators but, because we have multitiers of regulation in Australia, we end up having about 600 regulators that are responsible for the sorts of systems that I'm talking about. So, in general terms, there will be a state regulatory body. That regulatory body is not uniform between the states so, for example, some states have the state Health Department as the regulator for recycled water systems; other states may use the Environment Protection Authority; other states use building regulators; and one state even uses the Department of Justice as the water regulator. That in itself leads obviously to very different views about policy and different views about implementation.

What we find is that in many cases the view of the state regulator can be directly at odds with views of other departments of government. I think every state government today would see that water is a crucial issue: access to water, savings in water, et cetera, are crucial issues. While you have particularly those states that are driven by or are very, very heavily influenced by health departments as regulators or pseudo-regulators - proxy regulators, perhaps I should say - the regulations that get placed in front of industry and users are so onerous and complicated and inconsistent that it actually causes huge disincentives for the rollout of technology and expenditure on systems.

Then we have another tier of regulation within states and that is local government. I will refer for a moment specifically to greywater systems, because I know them intimately but it applies across the board. In Australia, for example, with greywater systems we have three tiers of regulation - if I can call it "regulation". The first is nationally, where we have now a document that's referred to as the Australian guidelines for water recycling. This is an excellent document that's been well thought through, it's been contributed to by all of the states and most of the relevant bodies within the states have contributed to it. However, it has no jurisdiction

because all the states regulate water on their own. Most states will tell you that they are either now following in whole or in part these guidelines but implement them in very, very different ways and with very, very different sets of rules.

Once the states then implement these guidelines, or not, through their own regulatory agencies, what that does is it generally gives a recognition in one form or another - and I'll come back to that - about products or technologies, systems. However, in order to be able to use those systems, end users have to get permits from local government. We find in many, many cases local government approaches to implementing the regulations are highly variable and you can find that within a single state: different councils will actually apply different rules, even though there is a state certification or an approval granted to a technology or a system.

That in itself is a complex issue. There are differences in attitudes and differences in policies, but very significantly within councils, and it generally comes to council health officers. There's a tremendous lack of experience, a lack of knowledge and a lack of willingness to do anything other than check boxes.

So when you look at the three tiers of regulation, you then have to overlay other regulators, such as plumbing regulators and building regulators, and a myriad of codes and the complexity that applies to systems. One thing that is more or less uniform about regulation through Australia in this area is that there are two categories for recycled water systems. One is the category of systems that are known as single-dwelling systems. In other words, if you want to put a greywater recycling system in your home, provided that your home is a separate dwelling on a single title, that falls within a category of systems known as single-dwelling systems.

While there are different rules for different states, there's generally a category, and that is characterised by the fact that individual systems can have actual approvals. That applies throughout all states, so as a manufacturer you can have a system approved in a state for certain use and application, and people know that they can go and buy that system and, according to the state rules, they can use it in a certain way. That doesn't mean that their councils will apply those rules in a uniform way, as I mentioned, but that is a uniform system, despite the fact that the details of the implementation can be very, very different and very variable.

As soon as you move away from single-dwelling systems into what are known as multi-dwelling and commercial systems, then the rules become far more difficult, far more inconsistent, far more onerous, and as participants in the industry I believe that, caused by this regulatory environment, we're now actually beginning to see a backlash. We're beginning to see projects cancelled. We're beginning to see customers or end users specifying systems to meet sustainability targets in buildings, install systems and never switch them on, because they're not prepared to work

within the regulatory system or pay the costs that the regulatory systems impose.

We see this as a very dangerous trend. We see many examples of rules being irrational, from diametrically opposed viewpoints depending on the states, and I might just quote a couple, if you don't mind, that I mentioned in my submission. I'm not trying to get you lost in technical details, but it becomes very relevant.

For whatever reasons, these commercial and multi-dwelling systems, for example, are governed in some states by their size rather than by what they do or by the water quality they produce. This means that we have a situation in Victoria, for example, where if a system has less than 5000 litres a day of treatment capacity, then the product water from that system - and I'm talking about commercial and multi-dwelling systems - is not allowed to be used for toilet flushing, regardless of the technology that's adopted, regardless of the risk management protocols that are incorporated in the project. It is just not permitted. We believe that that's because the Victorian regulators see small systems as being inherently high-risk systems.

However, if we now move to Queensland, if a system has a design capacity of less than 3000 litres per day then the system that can be adopted in those circumstances can be a simple domestic-level system which produces a recycled water quality that is far lower than the commercial system will produce and with far less risk management initiatives included. The reason for that is certainly not because Queenslanders are inherently less susceptible to attack by pathogens than Victorians, but it clearly means that Queensland regulators must see small systems as being inherently lower-risk systems than larger systems, which is diametrically opposed to Victoria. The end result of all of this is that, again from a manufacturer's perspective, we can't have an Australian product. We essentially have to produce a product for each state. I could quote many more examples as to why this is so, but it's probably not necessary to do that. It creates a tremendous difficulty.

There are also other ridiculous anomalies. A couple of weeks ago I read in the Sydney Morning Herald a report about the water quality at the various beaches along Sydney and it was reported that most of the beaches were pretty good and were quite safe for swimming, and the point at which they started to become unsafe for swimming - and I'm talking about swimming; immersion of your body in the water - was at a bacterial level of 40 what are called CFU, 40 colony forming units, per 100 mils of water. However, in any state in Australia if we want to use recycled water for toilet flushing in a commercial building, we have to have no detectable bacteria - less than detectable. So at a public beach, with hundreds of thousands of people, it's fine to swim at a level of 40, but it's not fine to flush a toilet unless you've got non-detectable bacterial levels.

These are just a couple of examples, and these issues, as I've said, are

becoming so serious that we're beginning to see a backlash in the market. We're beginning to see people identifying these issues as being too difficult, too complex and too costly, and this is, as I said before, the most serious impediment that we see to the rollout of an incredibly valuable contributing group of technologies to the urban water problems that we have today.

DR CRAIK: Thanks very much. Coming to that very issue, do you - well, you have an organisation. Do you have a view about how these regulations should be structured and the role of state governments and local governments in actually structuring a reasonable set of regulations, or what you would regard as reasonable?

MR KRASNOSTEIN (NWS): I think it's not rocket science. Australia has half the population of California and yet we have this myriad of nonsensical regulation. We have a national water body; we have a national water commission - whether you start there or start somewhere else. We have a set of guidelines that's been developed at a national level; the states are now starting to use it and interpret it. Our view would be that we need one set of consistent national regulations. It's not so difficult, one set of consistent regulations.

I don't think that in this area the states have a major role to play. I think local government does still have a role to play in terms of permitting specific systems, but I think the way that local governments should play that role and the tools that they're given to play that role with need to be seriously looked at. I think discretion should be removed very largely from local governments to impose additional rules over things that have already passed scrutiny and tests, et cetera. And let me just reiterate that the requirements to have systems approved and accredited are themselves very, very onerous, so I think if that can be done in a centralised and uniform way, then the role of local government becomes one of ensuring compliance with overarching regulation rather than modifying it as they see fit.

DR CRAIK: Yes.

MR KRASNOSTEIN (NWS): But I think the other issue with local government is that there's a crying need for education and updating of their knowledge levels across the people who are responsible for managing - - -

DR CRAIK: Do you think they have the skills to - local government?

MR KRASNOSTEIN (NWS): I think that in most cases they have environmental engineers or environmental health officers who are the responsible people within council. What I found personally is that their level of knowledge of the specifics is not always - there are some very, very good people out there but in many, many cases their level of knowledge is pathetic, really pathetic, and with some work at that

level, which is an educational thing, and with one overarching set of rules then I think we're going a significant way to resolving a number of issues that are out there.

DR CRAIK: One thing you mentioned this morning and in your submission was that the monopoly water suppliers often put impediments in the way of you putting in place your systems. Can you give us a bit of an example of what sort of impediments they are?

MR KRASNOSTEIN (NWS): Yes. I prefer not to name names, but monopoly water suppliers see the market as their market, so every litre of water that is recycled, whether it's by an individual in his own home or by a body corporate in a block of apartments, in fact is a litre of water that's not been sold by that monopoly supplier. So they don't have a lot of incentive to encourage the rollout of recycling systems. If it's done by anyone other than themselves then of course it is a litre that's sold.

However, the benefit to - don't forget that most of these monopoly suppliers are either state or semi-state agencies in any event and - I'm getting off the track a little bit but I just wanted to make this small diversion. Many of the benefits that accrue as a result of people's investment in private water recycling systems accrue to the community and to those state agencies in various ways: reduced wear and tear on infrastructure or reduced energy costs, extension of capacity by replacement at local levels, putting-off of investment decisions. All that sort of stuff ultimately accrues to the community.

Where you have the incumbent water authority who is also, in many ways, a regulator in their own right - and that applies here in Sydney with Sydney Water, and I'm not saying anything about Sydney Water other than it's a set of circumstances. Sydney Water is not only a competitor to Nubian Water Systems or anybody else in the provision of recycled water but it also makes the rules about what you can do and what you can't do in regard to that part of the rules that applies to plumbing, for example. I guess at the very minimum that's a conflict of interest.

DR CRAIK: So who do you think should make those rules?

MR KRASNOSTEIN (NWS): In regard to that particular aspect?

DR CRAIK: Yes.

MR KRASNOSTEIN (NWS): There's a plumbing regulator, or there should be a plumbing regulator. In Victoria there's a plumbing commission. In Queensland there's Building Codes Queensland, a section of the Department of Infrastructure and Planning. There are plumbing regulators, and let plumbing regulators make plumbing rules. Don't let them be made by the incumbent water supplier.

DR CRAIK: I guess one of the things that they have told us is their concern about some distributive water systems and the concern that they will fail, requiring the utility to step in as a kind of supplier of last resort. Do you have an opinion about it?

MR KRASNOSTEIN (NWS): Yes, I do. A bit like the sky is falling in, isn't it? I don't really want to make provocative statements but it's not something that I think is a surprising point of view, and to some extent it's a reasonable point of view. We will be seen as the ultimate fall-back position for systems that don't work and people who walk away from them or won't operate them properly or whatever. I think it is a reasonable concern to express. I don't think that it's a reasonable argument against distributive systems. I think it's something that you have to manage structurally and, again, by adequate regulation.

DR CRAIK: Are some jurisdictions better than others? Is there a jurisdiction which has generally better arrangements?

MR KRASNOSTEIN (NWS): It depends which week you ask me the question.

DR CRAIK: Does it depend on a particular thing you're trying to do, or the particular area you're trying to do it in?

MR KRASNOSTEIN (NWS): No. Look, there are some states that I think - if you're talking about jurisdiction in the states.

DR CRAIK: Yes.

MR KRASNOSTEIN (NWS): There are some states that I think have a more structured and rational approach than others and I think New South Wales is one of those. New South Wales does have a fairly well thought-through and structured guideline document that more or less works. It's the first to implement the WICA legislation and that I think is progressive in many ways. Some of the other states are a million miles behind that. Victoria, for example, still governs small water recycling systems under the septic tank act and that doesn't help things, particularly at local government level.

We have found Western Australia, for example, to be very - while their requirements are very harsh - "harsh" may be the wrong word but the requirements are very onerous - we've found them very receptive to technical discussion and they are willing to take on different directions, if you like. We found South Australia to be totally impenetrable. I find Queensland to be ridiculous. It's really - - -

DR CRAIK: Difficult?

MR KRASNOSTEIN (NWS): No, I said "ridiculous". And again, I could give you a long discourse about the - and so do the regulators in Queensland, I have to say, to be fair to them. The regulators at Building Codes Queensland absolutely recognise that the legislation - the Queensland Plumbing and Wastewater Code, for example, that they have to administer is absolutely an inappropriate document. However, they're stuck with it.

DR CRAIK: Yes.

MR KRASNOSTEIN (NWS): It's really a complex situation but it's a situation that really needs, in my mind, to be addressed seriously in the short term because I think we're really starting to see a dangerous situation from the industry's perspective.

DR CRAIK: So are you seeing customers withdraw from being involved in it?

MR KRASNOSTEIN (NWS): Absolutely.

DR CRAIK: And are you seeing that impact on the providers of the - - -

MR KRASNOSTEIN (NWS): Yes, definitely.

DR CRAIK: Companies like yours, the providers?

MR KRASNOSTEIN (NWS): Absolutely. I can quote specific examples of it.

DR CRAIK: That might be useful if you can at least give us a few numbers on frequency or something. You also mentioned that people are installing these things but not actually using them because the regulatory framework is just so demanding.

MR KRASNOSTEIN (NWS): Yes, and I believe it's - and once you start making comments like that and - as I said, I don't want to be provocative and I don't want to be seen to be deemed too partisan, but as soon as you start making comments like that, of course you'll see us taking a position, and it's something that perhaps the commission needs to investigate for itself. When someone who is not a health department officer makes a comment about the extent of health department regulations and were to complain, for example, to a government minister or to another department, it's a very brave politician - or stupid - who would override the principal scientist at the state health department saying, "But we think the risk is too high."

"Well, you're wrong, because it's not too high; change your rules." We're in

that situation and that's very difficult. I don't know how you deal with that. Health departments by their nature are very, very conservative and so they should be. Their role is to protect public health. But when you get dramatically different positions being taken about how you do that by different health departments, it illustrates that there is room for an umpire, if you like. That's I think an important point, too.

DR CRAIK: Government sometimes give subsidies and things to encourage people to put in place greywater systems, or some of these things are mandated like water conservation measures - insisting on having a tank in a new house and things like that. What's your view about the effectiveness of those sorts of things?

MR KRASNOSTEIN (NWS): I don't think that any technology or system can ultimately rely on subsidy, handouts, incentives, rebates - whatever they are. However, in the early stages of an industry, where there's a lot of R and D money being expended, where sales volumes are very small and therefore unit costs are still quite high, I think that there can be some useful encouragement given to industry and people to get things off the ground.

DR CRAIK: Do you think they're appropriately targeted at the moment?

MR KRASNOSTEIN (NWS): If you talk specifically about rainwater, for example, there's nothing to speak of. There are some state incentives but they're at such a low level that they don't influence the purchase decision in any way at all. You know, if a system costs $15,000, first of all the market for that system is going to be relatively small at the domestic level, but if you get a $500 rebate it's not going to change your decision to buy it or not to buy it. So I don't think that the few that do exist are particularly well targeted from that perspective.

I'll talk a little bit about rainwater tanks. I think the rush to install rainwater tanks and subsidies that were thrown at rainwater tanks weren't particularly well thought through. The distributed systems and small-scale solutions is a continuum. It's a jigsaw puzzle, and every piece of the jigsaw puzzle has some contribution. So, again, rainwater tanks are valuable in certain locations and applications. They're much more valuable, for example, in a domestic home in Brisbane than they are in Melbourne or Perth: six months of the year in Perth it doesn't rain. When do you need the rainwater tank to be full? When it's not raining. So they have very limited value.

You've got to look at the size of tanks, roof areas, frequency between rainfall events, duration of the event, how much you can capture, blah blah blah. If you do all that analysis, you find that some are valuable in some places and they're not valuable in others. So when you get rules like you have in, for example, Victoria and Queensland which give you certain - it's probably the wrong word - certificates, if

you like, in building and construction by the installation of a rainwater tank, they don't take into account so-called value in use. Your rainwater tank can be completely empty 11 months of the year, but you still qualify for your credits. The same applies with the BASIX rules in New South Wales. It doesn't matter whether the rainwater tank ever gets any water in it but you've put it in.

The other fundamental problem with some of their systems is, again, that there is no follow-up, no audit beyond installation; in other words, if you get your BASIX points because you put in a rainwater tank and/or a greywater system and/or anything else, once you're in the house no-one will ever come and ask you, "Are you still running it and what did you get this for?" So I think there are a few things in the area of incentive and rebate - I think they all fall into that - that probably need a bit of looking at.

DR CRAIK: I think we will have to call a halt there. Thanks very much, Phil, for coming along.

MR KRASNOSTEIN (NWS): Thank you.

DR CRAIK: We'll go to the next person appearing, who is Louis Schetzer from the Public Interest Advocacy Centre. Louis, if you could state your name and your organisation for the record, and if you would like to make a few opening remarks, we would be pleased to hear from you. Thank you.

MR SCHETZER (PIAC): Louis Schetzer from the Energy and Water Consumer Advocacy Program, which is part of the Public Interest Advocacy Centre. By way of introduction, I'll introduce the organisation. PIAC is an independent nonprofit law and policy organisation which undertakes strategic action on public interest issues on behalf of citizens, consumers and communities, and the Energy and Water Consumer Advocacy Program was established at PIAC in 1998 with the aim of developing policy and advocating in the interests of low-income and other residential consumers in the New South Wales energy and water markets. Before I commence my main points, PIAC has also sought, and I understand obtained, an extension on providing its final submission. I think the time line is now the end of November.

DR CRAIK: That would be fine. The sooner you get it in, the happier we'll be, but the end of November is fine.

MR SCHETZER (PIAC): The sooner we get it in, the happier we'll be, too. The first comment that I would like to make - and it's addressing some of the key questions that were in the issues paper in terms of the objectives which should guide the reform of Australia's urban water sector - is that PIAC particularly wants to emphasise the issues of accessibility and affordability, but in the context that entitlement to a supply of water is necessary to secure an adequate standard of living and forms part of Australia's international obligations to fulfil human rights under the International Covenant on Economic, Social and Cultural Rights. The right to water is a component of the right of everyone to an adequate standard of living under article 11 of the convention and it's a component of the right for the enjoyment of the highest attainable standard of health as set out in article 12.

The United Nations Committee on Economic, Social and Cultural Rights has made specific comments regarding the human right to water. That is:

> The human right to water is indispensable for leading a life of human dignity. It is a prerequisite for the realisation of other human rights.

The human right to water entitles everyone to sufficient, safe, acceptable, physically accessible and affordable water for personal and domestic use. The committee has also recognised that the availability of water supply for each person must be sufficient and continuous for personal and domestic use and that some people and groups may also require additional water due to health, climate and work conditions. The committee has stated that water and water facilities and services

have to be accessible to everyone without discrimination and that accessibility includes four dimensions: physical accessibility; economic accessibility; non-discrimination; and accessibility to adequate information.

In practical terms, that means that the Australian government is under international obligations to ensure that all households are able to afford to purchase an appropriate quantity and quality of water, and PIAC would submit that the objective of primary importance to guide reform of Australia's urban water sector is that water is an essential service and that ensuring households have adequate access to affordable and appropriate quantity and quality of water is part of Australia's international human rights treaty obligations under the International Covenant on Economic, Social and Cultural Rights.

Should the Human Rights (Parliamentary Scrutiny) Bill, which is currently before the Senate, pass the parliament - which it is expected to do in its current form - then all legislation and regulatory amendments, and new regulation and legislation, will have to be accompanied by a statement of compatibility in terms of Australia's obligations under that treaty and also six other international treaties as well, human rights treaties. So to articulate that as a prime objective in the reform would be reflected in a statement of compatibility as well.

The second point regarding consumer protection arrangements: we would contend that a strong consumer protection framework is essential to assist in ensuring that all customers, especially those experiencing hardship, can maintain access to water and other essential services, but that it's unreasonable to assume that this alone will adequately respond to the needs of all consumers experiencing payment difficulties.

Research commissioned by PIAC in 2008 in relation to the experience of utility disconnections indicated that some of the difficulties of relying upon consumer protection frameworks and hardship provisions, in spite of the existence of consumer hardship charters, regulations governing disconnection procedures, water and electricity payment vouchers, payment plan requirements and rebates and other supports and protections - even in spite of those safety net provisions, many customers still experience disconnection or flow restriction due to an inability to pay their bills. So we would submit that residential water prices should be set with reference to affordability as a prime objective.

I'd like to make some specific comments on issues of consumption and pricing, and referring to some of the options that have been canvassed in the issues paper; firstly to look at inclining block tariffs. We would acknowledge that there are attractions to inclining block tariffs as a mechanism to providing equitable and affordable access to water, particularly where there is an initial block price below

cost - some sort of social tariff - but PIAC would not support the adoption of inclining block tariffs which discriminate against households who would be reasonably expected to consume large quantities of water to secure an adequate standard of living.

Those households would include residents with need for water for medical purposes, such as kidney dialysis; households with large numbers of members, including families with children; and households that accommodate transitory populations, such as Indigenous Australians. Such households would need to be eligible for an initial block or social tariff, or be exempted from higher usage charges which would be incurred in the higher blocks.

We also consider that it would be unfair to impose such tariffs on households that do not have individual water meters and cannot check and amend their level of consumption to avoid paying higher prices. Many such households are low-income earners. They will struggle to pay the additional costs incurred by consumption at the higher tariff levels. This would include residents in public housing estates, residential parks and caravan parks and rooming houses.

As an essential service, we would submit that water would have a low price elasticity, and inclining block tariffs may not in effect be the most appropriate or effective way to manage demand and reduce consumption. PIAC is also looking at issues in relation to frequency of billing, because we would be concerned that consumers often do not receive an adequate price signal in relation to their consumption by virtue of the frequency of billing as well.

In relation to scarcity pricing we would submit that many low-income households have limited discretionary water use and they have little opportunity to cut their water consumption when faced with higher prices, so we would be concerned with any proposal to introduce scarcity pricing for residential households. Low-income households are unlikely to have the resources necessary to improve their water consumption by trading in existing appliances for more water-efficient models and, as such, scarcity pricing would be likely to lead to higher water bills for low-income households. As indicated, we're also concerned and sceptical about the effectiveness of pricing tools such as scarcity pricing in managing demand and reducing consumption.

In terms of postage stamp pricing, PIAC is opposed to the principle that permits residential consumers residing in different geographical areas serviced by the same water authority to be charged different water charges. Such differentiation of water charges by the cost of servicing different customers based on location service standards has the potential to generate adverse outcomes to some already disadvantaged water consumers. Some low-income households in communities that

are expensive to service may end up being charged more for water and may in turn experience increased difficulty paying their water bills. Where customers serviced by the same water authorities are eligible for the same dollar value rebates, the adoption of different prices within a supply area would distort the value of these concessions, to the detriment of some low-income households. Disadvantaged consumers in remote areas may be further disadvantaged by this method of pricing, and this would include Indigenous communities in remote regions.

In terms of water restrictions, PIAC supports water restrictions as an effective demand management tool that plays an important role in reducing the need for expensive capital investment, but we are concerned that reduced consumption as a result of adhering to water restrictions, which carry with them the threat of sanctions - such reduced consumption should not result in increased water charges to consumers by virtue of water retailers increasing charges to compensate for losses arising from reduced consumption; that there is an inequity that arises that, by complying with the law, disadvantaged consumers in particular are facing higher charges.

Rebates and income support: PIAC is aware of an inequity in the availability of social support to consumers across New South Wales. Apart from Sydney Water and Hunter Water there are, we understand, 106 local water utilities responsible for providing water supply and sewerage services to non-metropolitan urban communities. These utilities service approximately 1.8 million people, and a number of the programs available to customers of Sydney Water and Hunter Water are not extended to customers of water utilities owned and operated by local councils. PIAC has previously called for the development of a state based framework to address hardship issues in a consistent and comprehensive manner across New South Wales. The issue of concern is not so much whether it's state or federally based but the need for consistency across the water utility providers.

In a similar vein, in relation to hardship policies, the lack of a consistent approach to hardship across the 106 local water utilities results in an inequity and inconsistency in the availability of hardship programs. As I've indicated, we've previously called for the development of a comprehensive statewide framework to address hardship issues in relation to water and wastewater usage. Such a framework should provide that all water utilities provide a hardship program for people in financial hardship and provide for the mandatory minimum elements for such hardship schemes. We can go into details in our submission as to what those elements will be.

DR CRAIK: Good, yes.

MR SCHETZER (PIAC): But they're largely reflective of some of the regulatory

requirements that have appeared in energy hardship schemes as well. That would conclude my comments and statement.

DR CRAIK: Thanks very much, Louis, that's very comprehensive. Yes, it would be useful if you could detail what you would see as the essential elements of a hardship scheme for us.

MR SCHETZER (PIAC): Yes, we'll be happy to do so.

DR CRAIK: That would be very useful. Thank you. The first question I'd ask is: water and sewerage only make up generally a pretty small percentage of household expenditure.

MR SCHETZER (PIAC): Yes.

DR CRAIK: Around about 1 per cent. It's pretty small. And you've raised it yourself, the frequency of billing, given that bills are relatively infrequent. Would you prefer to see a system where bills were more regular, like monthly or two-monthly? I suppose the problem with them being physically read places some limitations at the moment, but would you prefer to see them more regularly than quarterly or four-monthly?

MR SCHETZER (PIAC): We've seen, both with energy and with water utilities, that the frequency of billing does not often lead to a response in relation to consumption. We think that frequency of billing is one aspect of that and we think that increased frequency, compatible with also adequate investment in rebates and supports for disadvantaged consumers, would assist in sending that adequate pricing signal, but recent research that we've undertaken also in relation to energy consumption indicates that there is a passivity in the demand as well and we'd suggest that it would probably be similar in relation to water, and that is that it is reflecting a small proportion of the household budget.

DR CRAIK: So what are you saying? It's not going to make much difference? It may not make much difference?

MR SCHETZER (PIAC): It would make a marginal difference. I think these are nuances within the market itself, that pricing signals are often not reflecting or not well received or well heard, and it's difficult to adjust consumption as well. Indeed, for low-income consumers, in terms of discretionary consumption it's actually quite low. There's not much that they can actually reduce in terms of their demand. I guess what we're saying is that as a market there's a number of factors that would suggest that the consumers are not acting in that rational capacity in terms of their behaviour reflecting the pricing signals.

DR CRAIK: On that basis, and this is the same question I asked Tony, do you think that if there are to be rebates and subsidies they should apply to the fixed component of a water bill rather than the volumetric so at least you do have some signal for usage but in the price, but apply a rebate to the fixed charge so that it would be constant?

MR SCHETZER (PIAC): It would definitely make a difference in terms of that ultimate cost. I suppose the question is then what's the approach to billing in relation to the usage as well? We have indicated some of our concerns about, for instance, inclining block tariffs as well, that there will be some households that will necessarily have large water consumption that is non-discretionary as well. So where that's attached to the fixed aspect, the supply aspect, it would provide greater assistance but as long as it's not accompanied by increase in the usage charges as well.

DR CRAIK: I suppose the argument also has been put that an inclining block tariff means that the low water users in fact subsidise the high water users, and the low water users tend to be the lower-socioeconomic groups generally.

MR SCHETZER (PIAC): But there are high - - -

DR CRAIK: Of course there are high water users in that group.

MR SCHETZER (PIAC): And those who can't change their discretionary use, those who can't upgrade to water-efficient appliances, and households with large families as well.

DR CRAIK: Scarcity pricing was an issue that you raised and you didn't express great enthusiasm about it, but I guess there are some suggestions that it certainly has the possibility of allowing a water utility to defer a major supply augmentation which, in the long run, would save cost to the community. So do you see any value at all, any benefits at all in scarcity pricing?

MR SCHETZER (PIAC): All that our concerns had expressed, and the concerns in our submission, is that it will not have a favourable impact on disadvantaged consumers because of the limited ability for those households to cut their consumption.

DR CRAIK: Restrictions. You expressed some - well, your view about restrictions being that you're generally supportive of restrictions in terms of curtailing demand. Do you hold that view given the cost to the community of restrictions and the cost to even individuals and even the groups that you're representing; the cost to them? Do

you see that as a problem?

MR SCHETZER (PIAC): I would see that it actually sends a social message to the community. The concern, as I indicated, that I expressed was that where enforced consumption restrictions are not reflected then in the pricing or the billing that consumers receive through their legal compliances, it seems somewhat of an inconsistent arrangement and it's a report that we've received complaints about.

DR CRAIK: That there's no reduction in the price of the water?

MR SCHETZER (PIAC): Yes, for observing legal compliance. But we've generally held the view that restrictions actually send an important social message of water conservation as well.

DR CRAIK: What about the social message, say, for the family with five kids who wants to do something that doesn't cost a great deal, putting them under the sprinkler on a hot afternoon, and they can't do that because of water restrictions? Or the person who has to carry buckets of shower water out to their garden - an old frail person - because of water restrictions? How do you take account of those sorts of downsides of costs of restrictions?

MR SCHETZER (PIAC): It depends on the level of the restrictions as well, whether it's the odd and even occasion and the hours of watering as well. In terms of, for instance, low-income people who are in high-density housing, the issues of watering gardens does not become an issue, so we are actually talking about a particular cohort number where, for elderly people, that issue does present a lot of difficulties. I think with any society or community-initiative messages such as water restrictions, there also has to be a level of flexibility in terms of how that is approached, the issues of education, as to then what watering practices should be, and particularly education to older people in the community.

DR CRAIK: What about pricing options, a bit like your mobile phone I guess? You know, you can get your basic service or you can pay this much more, or less for this much less? Water utilities putting forward a range of pricing options for people; what's your view about that?

MR SCHETZER (PIAC): Would that be akin to, for instance, the basic social tariff, which is minimal, and then educating - - -

DR CRAIK: I suppose they could construct it however they like.

MR SCHETZER (PIAC): I'd need to see the details.

DR CRAIK: Would you want to see restrictions or conditions on such options, I guess would be the way to phrase the question there.

MR SCHETZER (PIAC): We would want to see that allowance would be made for particular households or groups who would have limited discretionary water usage and so, again, I come back to the households with large families, households which have particular medical needs for high water usage and how that is incorporated into those options as well.

DR CRAIK: But would you have a problem with others being able to pay more for greater water use at their discretion if there was an appropriate hardship policy?

MR SCHETZER (PIAC): If there was an appropriate hardship policy that was protecting the most disadvantaged and people who have limited discretionary options in relation to water consumption. I mean there's a lot of "ifs" in there but if those protections were in place then we would see that high consumption - and, as I said, there are some attractions to that inclining block tariff system where high discretionary consumption is appropriately paid for.

DR CRAIK: Do you have much to do with Indigenous communities? Do you have much involvement?

MR SCHETZER (PIAC): PIAC has a range of programs with Indigenous communities, yes.

DR CRAIK: In terms of water provision in Indigenous communities?

MR SCHETZER (PIAC): There has been some limited contact and we have done some research work in relation to utility consumption with Indigenous communities. As I indicated in my comments, where you've got some householders in Indigenous communities where there's a transitory population, where sometimes there will be large numbers of people residing in a residence and that will be changing, and large numbers of extended family changing residence as well - so that was reflecting those comments.

DR CRAIK: Is that research available?

MR SCHETZER (PIAC): I can provide the commission a copy with our energy research into cut-off, which looked into some of those questions. It was a statewide survey. We have just completed a survey in relation to energy consumers in five regional locations in New South Wales. Literally two weeks ago the researchers came out of the field, so we're talking raw data. So we'd expect that would be available early in the new year, once it's been analysed.

DR CRAIK: If it was available to us that would be very useful, thank you. With a lot of these questions there's often not a lot of hard data.

MR SCHETZER (PIAC): That was principally focused on energy consumption - or did focus on energy consumption. It conducted customer surveys in Cooma, Lismore, Bourke, Orange and the fifth locations is just - Wagga, yes.

DR CRAIK: Okay, good. Thank you. I guess just one other question: competition in the water sector. Do you have a view about that? Do you see that as attractive?

MR SCHETZER (PIAC): With appropriate safeguards and protections and regulatory frameworks. As indicated in my comments, the concerns are the hardship frameworks and rebates and support assistance. So where there are adequate regulatory arrangements, including reporting on hardship programs and available rebates assistance, and that's built into the competitive framework, that would be our main principal concern.

DR CRAIK: Okay. Thank you very much for your comments, your dot points and your introductory statement. Certainly we look forward to your submission and, yes, including the elements of a good hardship policy would be very useful. Thank you.

MR SCHETZER (PIAC): Yes, they will be provided. Thank you.

DR CRAIK: Thank you very much.

DR CRAIK: We now go to our last person appearing for this morning, Mr Laurence Jones, who's a researcher. Welcome. Mr Jones, if you could introduce yourself, say your name and who you represent, if anyone, for the record and then could I invite you to make a few opening remarks and we'll go from there. Thank you.

MR JONES: Thanks very much. My name is Laurence Jones. I am representing myself and I come from the Sunshine Coast in Queensland. First of all, good afternoon, ladies and gentlemen. I'd like to say that I appreciate the opportunity that the commission has given me to present my submission in person. What follows is my opinion only. I must apologise to the commission: I had intended having my submission professionally bound, but after 13 years of extensive research and investigations fighting corruption at all levels of Australian government, at a personal cost of around $80,000, I simply no longer have the finances to do so.

The Australian national reform process was initiated around 1990 by the Australian federal government with the intention of forcing the privatisation of Australia's publicly owned and operated infrastructure, using the National Competition Policy and the council enforced by the coalition of Australian governments, and has been an expensive, spectacular failure, corrupt and quite deceitful.

The Productivity Commission's recent media release and literature regarding this inquiry gives the impression that the commission is targeting costly desalination as the sole reason for massive increases in water charges. What the commission failed to mention was that multinationals were forced to choose desalination only after seven failed attempts to force the introduction of direct water recycling for human consumption over a number of years. Specifically, the government reform process targeted Australia's 80 billion of water and wastewater infrastructure at the same time that multinationals had entered Australia in 1990.

The government's drive to force the privatisation of public infrastructure without public input has not been transparent, has lacked effective public interest criteria, any independent oversight or cost-benefit analysis. Furthermore, any community consultation or education programs involving the federal government, the Queensland state government, the Australian Water Association, the Sunshine Coast Environmental Council and CSIRO on this issue of water supply options appears to have been biased, deceitful, poorly handled and a dismal and costly failure. They have over time and without exception condemned dams while promoting the forced introduction of direct water recycling for human consumption under the title "indirect potable reuse".

The public has a right to know why their water and wastewater charges have

recently and dramatically increased, with predictions that costs will double in the next few years, impacting on their ability to pay their bills, on the poor, and the ability of Australian businesses to compete both in Australia and overseas. The public has the right to know that a strategy was initiated in 1990-91 with the specific purpose of creating a water supply crisis for Australian cities. That strategy included the Australian federal government, multinationals, environmental groups in both New South Wales and Queensland, and the Queensland state government.

From 1995 until the present day, these groups used the Australian Water Association, AWA, to what I believe was manipulate, dictate and write Australian government water policies. That water policy condemned dams and ocean outfalls, promoted and forced the introduction of costly water recycling for human consumption and, later, forced the introduction of desalination. Both the introduction of desalination and water recycling for human consumption would force councils, et cetera, to eventually privatise their water and wastewater infrastructure.

Their strategy was simple: get new dams off the agenda. Without any new dams being built to supply Australian cities, with droughts and an ever-increasing population, Australian cities would soon run short of water, and they did. In order to achieve this, in 1992 the environmental movement in New South Wales and Queensland was encouraged to commence a very public campaign of condemnation of dams, to get rid of the cheapest water supply option and opposition; condemn ocean outfalls, because the sewage effluent would be needed for water recycling for human consumption, while at the same time privately promoting the introduction of indirect potable reuse of treated sewage effluent. My submission outlines that strategy, the corruption involved, those involved, in great detail from 1990 until the present day.

Furthermore, the federal government, in implementing the National Competition Policy, failed to abide by their own policies in their decision-making. The following quote is from the National Competition Policy web site:

- the review and where appropriate reform of all laws that restrict competition unless the benefits of the restriction to the community as a whole outweigh the costs and the objective of the law can be achieved only by restricting competition, and a requirement that all ... legislation that restricts competition meet this test

- specific "related reforms" to increase competition in key infrastructure services of the economy on which businesses rely -

because the Queensland government has played a leading role in the carrying out of this strategy and in several attempts to force the introduction of expensive water

recycling for human consumption, costly desalination and a water grid, outcomes that are the result of allowing AWA members - or I should say certain AWA members - to dictate and write Queensland government water policies.

I would like to quote the following article, which was published in the Courier-Mail on 27 October 2010. It was written by Robert MacDonald and it was titled "Our say in community assets ignored on fast track to privatisation":

> The next time the Queensland government decides it wants to sell something, here's a simple question it should ask itself: does it have a process for comprehensive public input? Clearly, it didn't have one last year when, out of the blue, Premier Anna Bligh and Treasurer Andrew Fraser announced their plans to privatise Queensland Rail's freight business, the Port of Brisbane and various other assets in a frantic bid to raise $15 billion or so. Otherwise, we perhaps might have heard something about the ... plan during the 2009 election campaign held only months before the announcement ...
>
> Does it have a clear public strategy for choosing which assets are candidates for privatisation? And another: is every step in the process of privatisation fully transparent? These are some of the logical questions a US think tank, the Chicago Council on Global Affairs, believes governments need to consider when thinking about selling off public assets ...
>
> It found that none of the jurisdictions it examined "had an explicit strategy in place for determining which assets should be owned by the state and which should be privately operated". In addition, none "had a standing process for promoting public discourse on the issue" or a transparent policy for determining how privatisation revenue should be used. "In other words, the municipalities doing these deals ... have no consistent framework for making governance decisions that can involve billions of dollars and affect multiple generations," the report says.

Reforms commenced in 1990 aimed at improving efficiency in the urban water sector have failed to achieve positive social, environmental and economic outcomes, confirmed by the need for this inquiry. Many reasons for that failure are also mentioned in the above article. The above article also states:

> A lack of public input, real or perceived, at any point in the privatisation process can compromise the outcome and leave citizens deeply disaffected, the report warns.

So how does one feel when infrastructure, previously owned by the residents and effectively managed by local government, which has been used to provide goods and services at a reasonable cost, is virtually stolen from them by politicians without consultation and without a referendum: the social impact of private companies increasing prices of those goods and services to residents in order to increase profits for their shareholders, without concern that those residents are now left struggling to pay the increased prices which add to the basic cost of living?

How does one feel when that company is based overseas, perhaps a monopoly with no competition? No greater example can be found of social upheaval than in Queensland. Around 2007 the Queensland state government decided to force the local councils, under the National Competition Policy, the NWC - National Water Commission - and COAG initiatives, to hand the management of their water and wastewater over to the state government. That decision has resulted in extensive price increases for the supply of water to homes and businesses.

The following articles highlight social, economic and environmental issues which have arisen as a result of the National Competition Policy.

> Unionists and academics last week claimed a competition watchdog report criticising Sydney Airport's monopoly could have implications for the planned sell-off. The Australian Competition and Consumer Commission's report on airport performance ... criticised Sydney's privately-owned airport for abusing its monopoly power. The report ... accused the airport of price gouging, taking advantage of a lack of competition, and charging especially high prices with regard to its carparking rates. There were indications that the airport had increased profits at the expense of service and that it might be earning monopoly rents from aeronautical services ... the Maritime Union of Australia assistant national secretary Warren Smith said, "Privatisation of the Port of Brisbane would lead to increased prices for consumers."

Source, The Prices Will Rise, the Sun Herald, 21 March, by Kate Dennehy.

> A giant French company will reap hundreds of millions of dollars of South East Queensland's water crisis with consumers set to pay the price. In a little publicised deal, Paris based Veolia Water has been awarded a lucrative contract by the state government to run the 1.7 billion western corridor recycled water pipeline and the 1.3 billion Gold Coast desalination plant.

Source, Rich Harvest for French, Courier-Mail, 30 January by Greg Stolz. The fact is that Veolia was also a member of the consortium that built the Gold Coast

desalination plant. The Queensland state government also passed legislation giving the company protection if their management caused any impact on human health. They also gave themselves the same protection. In a little publicised deal, I have been led to believe that Veolia sells the desalinated and recycled water to consumers. If that is a fact and the public is unaware of it, then the Queensland state government has already privatised South East Queensland's water. One can't sell a product if one doesn't own it.

The impacts of corruption in the micro-economic reform process involving Australian government business and consumers are well known. Supply and demand, planning and decision-making in the medium and long term has either been diminished or, as has happened in most cases, totally extinguished through the NCP, COAG and the National Water Commission initiatives. A number of multinational companies involved in privatisation in Australia, including SUEZ and Veolia, have a very extensive record of environmental damage and involvement in corrupt activities involving water supply contracts. Those are explained further in my summary.

The failure of all three levels of government, state and federal, attorney-generals, corruption-fighting organisations, including the Australian Crime Commission, the involvement of politicians from all political parties, the direct involvement of two previous Prime Ministers, Kevin Rudd and John Howard, and three premiers in Queensland, not only in covering up this corruption and their failure to have it independently investigated, but also several attempts to pervert the course of justice on this issue, has prompted me to make this submission.

I ask that it formally be recorded that, with great respect, I believe the Productivity Commission has a distinct and known conflict of interest on this issue, one that should, under both its legal and moral obligation, have prevented it carrying out this urban water sector inquiry. A number of commissioners, I believe, have been involved in the past with the National Competition Policy arrangements, National Reform Agenda, COAG Reform Agenda, competition and consumer policy; a number of universities, including Monash University, which have been carrying out research into direct potable use of treated sewage effluent; numerous federal government bodies and departments, including the Office of Prime Minister and Cabinet, the World Bank. They have served as members of the National Competition Council and are involved with conservation issues or with institutes, environmental groups, companies or government; Australia's largest chemical company in chemicals and plastic regulatory functions.

Furthermore, it is my belief that commendations handed out by the federal government, such as the Order of Australia, AO, Centenary Medal for Service to Australian Society, et cetera, also may under certain circumstances contribute to conflict of interest, such as that when that person is involved and there is an inquiry

into corruption within the Australian federal government. My extensive submission involves all above. For that reason, and the fact that I have also more extensive documented evidence, I request that the commission consider that my submission be assessed by an independent body and that an independent royal commission of inquiry be established.

As well as this covering letter, my submission also includes a separate summary consisting of 180 pages, plus additional A4 based documented evidence, numbering in the several hundred, indexed 1 to 20, specifically addressing each of the subjects outlined in my 180-page summary in more detail. Once again, I thank the commission for this opportunity.

DR CRAIK: Thank you. Thanks very much, Mr Jones.

MR JONES: Thank you.

DR CRAIK: We will be putting your submission on the web site, along with all the other submissions.

MR JONES: That is my submission. Could I just ask who I give that to?

DR CRAIK: Probably Rick would be the person to give it to.

MR JONES: Thank you very much for that.

DR CRAIK: Thank you.

MR JONES: Thank you for the opportunity.

DR CRAIK: Thank you. I hope it wasn't too inconvenient to come down here. That completes today's scheduled proceedings.

DR CRAIK: For the record, is there anyone else who wants to appear briefly today before the commission? Yes?

MR BOWRING: Terry Bowring.

DR CRAIK: Terry, would you like to come up and sit at the table here, and say who you are and who you represent, if you are representing anyone, or yourself, and make a few opening remarks. Thank you.

MR BOWRING: All right. Thanks. My name is Terry Bowring. I'm managing director of my own small company, T. Bowring and Associates Pty Ltd. We call ourselves agrifood specialists with environment and process engineering. I've got qualifications in food technology and chemical engineering. I have worked all around the world in the food industry and, while I was working in America quite a number of years ago with the largest vegetable grower, processor, in the world, the Green Giant company, I got to know about some unique systems of water management in America, which I think a lot of people know about but I have always thought, after my years of working in the food industry, that they could be adapted to Australia.

Basically, it's canal technology. We have in Australia a situation where they're talking about the Murray-Darling Basin Plan that has just come up; they're talking about a need to take around 3000 to 7600 gigalitres of water off our irrigators and farmers. We're also talking about a need - the Water Association are talking about a need - I'm not too sure whether it's within the next decade or how long it is, but they're talking about another 1500 gigalitres of desalinated water. As you all know, desalinated water is very expensive and it ends up putting up the price of water to city residents quite a bit.

What a lot of people don't know is that in North Queensland we have 174,000 gigalitres of water going to sea every year during the monsoon period. This is 100 times what all the coastal cities all around Australia need for their water needs. Obviously a lot of that water is inaccessible, particularly up around Cape York, but we've figured out that there's probably around about 25,000 gigalitres of water which is reasonably accessible and we have looked at the possibility of taking around about a third of it and moving it from the north to the south, starting - for 4000 gigalitres - starting in North East Queensland and then moving that water down to the Murray, and once that project is proven and going, we see another 4000 gigalitres could be taken out of the gulf area and similarly connected to this canal and moved down towards the Murray.

I know this meeting is all about urban water, and it's not too many years ago that Sydney and Queensland were talking around about 25, 28 per cent water in their

dams, and the facts are that, according to the CSIRO, even though we've got water coming out of our ears this year it looks like in the future the southern states are going to suffer more water reductions, mainly through reduced rainfall, whereas up in the north of the country the CSIRO estimate of the last area in Australia to run short of water will be up around North Queensland in 90 to 100 years' time. This all comes from their modelling. How they do it I don't know, but I have great faith in CSIRO expertise.

So we have more or less said there is a future shock coming into this country in many ways. It's not only to do with water; it's also to do with facing a carbon-constrained economy. They're probably the major two items. And there's a bit of a problem with urbanisation too, I guess. Our cities are getting overcrowded, and there's lots of talk come around in the past to moving people inland to regional towns. With what's coming up in the future, we think that makes sense, because basically we estimate if it wasn't for mining and agriculture this country really is a service economy.

The cities are really supplying their individual needs to small businesses and keeping the place running, but where the big GDP earners are now probably is in mining, to some degree agriculture, but in the next 10 to 30 or 40 years, the next big boom market is going to be food - agriculture and food. This is confirmed by the CSIRO. They more or less see this as the future. They feel that water and food are going to be our big future issues, followed by a trend for urbanisation - in other words, people moving from the bush or inland areas into cities - and of course we've also got to live within a carbon-constrained world. So I think I should probably pass on a little bit of information about these big canals in America.

They're gigantic. They go right through central California, and in fact California never really got going until canals came. They were sort of running a lot of groundwater, and buildings were falling over as the ground subsided. They said, "Something's got to be done," and they came up with the idea of recovering seasonal water, mainly from snowmelt, and moving it to where it was needed, and of course cities such as Los Angeles are still supplied by canal water, and Santa Fe, Phoenix, Tucson and Arizona. So we're quite interested in it. If you go over areas like in Washington State and California, you fly over those areas, it's really interesting to see little circles on the ground everywhere. Of course, they're using what they call pivot irrigators, a very efficient form of irrigation, and it is a system which minimises water a lot. They're all running from big rivers. The big one in Washington State comes from Columbia River.

This is not sort of talking very much about urban water here, but I consider urban water to be not only urban water in cities; I consider it to be urban water in inland regions. There are big towns. Toowoomba is running short of water; it has

been for a long time. We have big towns like Dubbo, Griffith, et cetera, 20, 30, 40 thousand people. They're all struggling with water and, on top of that, the water quality is not that good. So we've more or less said, "Let's look at the future. What are the big constraints coming up that water can help with?" Here's where I slow down a little bit and I have to consult my notes a bit.

We know that the Murray-Darling Basin Plan is currently looking at taking large volumes of water away from irrigators. It's interesting. What they're talking about is water buybacks. These water buybacks, they buy a grower's water entitlement and he gets paid well for it and, of course, if he sells all his water buybacks, if he's an irrigator he's virtually out of business, and of course with future demand for food coming up, the last thing we really need is our farming industry and all their progeny to leave the land, because all of a sudden we won't have these people to support us.

The Productivity Commission did a report that came out around about March this year in which they were talking about, I think, 950 gigalitres of water which had been bought back in the last three years. Of that water, only 10 per cent got back into the environment, which is what it was purchased for. I think it was less than 10 per cent. We call that paper water and they're going to spend around about six billion on buying what we call Water buyback water, or we call paper water. Also we're going to spend another 5.6 billion on opportunities to improve water efficiency within the irrigation regions and I presume maybe even with farmers.

So they're all good things but we think that for the same amount of money we can start moving water from the north to the south. The first thing it can help with is that desalination, as I said before, is very expensive. We figure we can get water into cities via a carefully designed canal system which can then go into mainly down central Queensland, central New South Wales, right down to the Murray from up around the Burdekin Falls Dam, and we figure that we can get water into Brisbane via a subsidiary canal, Sydney, and of course once we get that water down to the Murray at Tocumwal all of a sudden that water can be - there are already pipes being built to get water from originally around the Goulburn Valley-Shepparton area down to Melbourne to partially fix up their water shortages.

Of course once the water gets into the Murray it automatically travels west towards Adelaide and of course provides more water for growers in Victoria and also down in South Australia and, more importantly, that water becomes available to coastal cities and inland cities, and there are some big ones down in South Australia too.

We figure that that's the basis of what we're talking about. We know that by bringing in a big project like this, this can protect Australia for the future, for at least

probably 50, going on up to 100 years, providing we are very careful with how we use this new source of water. We think that some of the things that we can do - we're talking about reducing carbon. Desalination is a very energy-intensive operation. If we eliminate that or reduce it with this new water, we reduce carbon offsets.

With cropping now we've got what they call carbon farming and it's amazing, some of the things that are coming up with people. I used to live in Shepparton and I've got good friends down there now, former directors of Ardmona who have taken over new technologies of what they call super-soil production, and they have modified very poor soils into really good soils. Suddenly their yields of fruit - in particular a good example is Granny Smith apples - have gone from 45 tonne to 145 tonne per hectare and their soil carbon has gone to 8 per cent. Now, that's massive. Soil carbon, that's taking carbon dioxide out of the air. No problems; it's easy. You can do it and we can start it today. There are no huge environmental problems associated with it.

So these are big areas in the carbon industry. The carbon farming industry now is actively seeking assistance from government to support growers to take on these sorts of things.

DR CRAIK: Mr Bowring, can you wind up, please?

MR BOWRING: Yes, all right.

DR CRAIK: Thank you.

MR BOWRING: We have a problem also coming up with a situation with fertilisers. You could see BHP getting into buying a big fertiliser company. We also know that fertilisers like phosphates have run so short now that we don't know where the next ones are coming from, really. China has got most of that phosphate. It will not sell it internationally. So we figure that some of the technologies that we're looking at for cities, a lot of food is consumed in the cities and of course it gets into our waste streams, municipal solid waste, and out of that municipal solid waste and out of farm waste et cetera, like straws, we can produce ethanol, biofuels. With the particular technologies we're looking at we can recycle nutrients. Now, this is going to be an important thing for the future and, on top of that - a lot of people don't realise this - in another five years our biofuel or our oil purchases from overseas will be costing us another $30 billion a year in our GDP deficit.

So we've got to be looking at producing biofuels in cities and agriculture and using specific technologies, and I think that's where water comes in also. We've also been looking at - in America - these big canals. They're all run by fibre optics and they now are using fibre optics to provide communications to cities alongside these

routes. This is one of the big issues coming up of inland broadband with the Independents at the moment and we think we can also do that.

So that's about it. I could go on for hours, I'm sure, but there is a future shock coming up and water is the solution and we've got plenty of it. We've got more water than most. It's all in the wrong places. We've got to move it down south. Thank you.

DR CRAIK: Thank you very much, Mr Bowring. Thanks a lot. Ladies and gentlemen, that concludes today's scheduled proceedings. I adjourn these proceedings and we'll resume in Canberra on 29 November. Thank you.

AT 1.08 PM THE INQUIRY WAS ADJOURNED UNTIL
MONDAY, 29 NOVEMBER 2010