

We welcome the opportunity to provide input to the Productivity Commission Inquiry into Australia's Urban Water Sector. We have attached a papers that we believe may be of interest to the Commission. The paper was prepared by Professor Crase as part of the review process being undertaken by the NWC. The paper has been used to highlight several deficiencies with policy reform in this domain.

In addition, the Commission may find the research papers listed at the end of this submission of some use in its deliberations.

The overriding themes that we hope are conveyed by these collective works are that:

- There is considerable scope for the development of economically efficient policies in the urban water sector;
- All too often, urban water services are conceptualised as 'extraordinary' such that the resulting policy responses produce perverse outcomes (e.g. IBTs purportedly designed to signal excessive water use result in the first block of the tariff being less than Marginal Cost);
- Urban water restrictions are a manifestation of policy failures on several fronts, including political decisions to isolate some water users from the full range of market forces;
- There are many less obtrusive instruments for dealing with equity than those currently invoked.

Please feel free to contact us directly should you wish to discuss these issues in more detail.

Dr Sue O'Keefe
Professor Lin Crase

Some suggested readings:

Byrnes, J., Crase, L. & Dollery, B. 2006, "Regulation versus Pricing in Urban Water Policy: The Case of the Australian National Water Initiative", *Australian Journal of Agricultural and Resource Economics*, Vol. 50, No. 3, pp. 437-450

Crase, L., O'Keefe, S. & Burston, J. 2007, "Inclining Block Tariffs in Australia's Urban Water Sector: Theoretical, Political and Practical Considerations", *Agenda*, Vol. 14, No. 1, pp. 69-80

Crase, L., Dollery, B. & Byrnes, J. 2008. "An Inter-Sectoral Comparison of Australian Water Reforms", *Water Policy*, Vol. 10, pp. 43-56

Crase, L., O'Keefe, S. & Dollery, B. 2008. "Urban Water and Wastewater Pricing: Practical Perspectives and Customer Preferences", *Economic Papers*, Vol. 27, No. 2, pp. 194-206

Crase, L., O'Keefe, S. & Dollery, B. 2008. "Can Urban Water Markets Work? Some Concerns", *Agenda*, Vol. 15, No. 3, pp. 73-82

O'Keefe, S., Crase, L. & Paul, W. 2009, "Equity Considerations in Urban Water Pricing", *Public Policy*, Vol. 4, No. 2, pp. 123-132