Wyong Shire Council
CENTRAL COAST

IJ:it/Mr Ian Johnson
F2008/00862

18 May, 2011

Urban Water Inquiry
Productivity Commission
LB 2 Collins Street East
Melbourne VIC 3165

Dear Sir

Draft Report – Australian Urban Water Sector

Reference is made to the above draft report with the following comments made: -

Overview:

In relation to drainage functions it is often assumed as a "given" that an urban water utility should not only manage water supply and sewerage but also drainage.

Whilst there are physical, administrative, service planning and service delivery reasons why water supply and sewage (including liquid trade waste) are logically considered together this in not necessarily the case for drainage, stormwater and flood mitigation.

Many urban water utilities include drainage/ stormwater functions as a result of historical legacies related to stormwater and sewerage infrastructure having once utilised common infrastructure (not the case now) or major stormwater conduits traversing multiple jurisdictions (councils) requiring cross boundary management and there being a single water utility in the area.

Drainage, stormwater and floodplain management often have a greater nexus with road and open space infrastructure, land form and planning issues than with urban water supply and sewerage services.

Whilst there are opportunities for integrated water supply and stormwater solutions these are often site specific depending on a range of local natural and urban features. In many instances a more effective / efficient model would be to align the management of stormwater with the local planning road managing authority and separately pursue integrated water supply stormwater solutions where they make economic and resource sense.

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Draft Recommendations, Findings and Information Requests:

While many of the draft recommendations (DR) and findings (DF) in the draft report are concurred with, the following specific comments are made: -

DR 5.1 Agreed - Environmental and water regulations in NSW would greatly benefit from such principles

DF 5.1 Agreed – however an appropriately and nationally mandated approach needs to be put in place

DR 6.1 Agreed

Adaptive management approaches are currently difficult in NSW as the planning legislation does not provide for approving projects or schemes that are not intended to be constructed in the short term, ie: all approved projects must commence construction within 5 years and there are no provisions to enable this to be extended.

This creates significant risks where staged development is proposed or readiness strategies are developed.

DR 6.2 While generally agreed, there may be situations where backlog works may justify some form of subsidy assistance.

DF 6.1 Agreed although a significant issue is overcoming entrenched positions of key stakeholders to consider all appropriate solutions for a particular circumstance and selecting the most appropriate solution/ solutions to those circumstances.

Early involvement by the key stakeholders in the initial problem definition, decision making process and solution objectives if undertaken genuinely at a pace that enable trust to be developed can assist in selecting appropriate solutions.

DF 7.1 Whilst theoretically scarcity pricing should provide an appropriate pricing signal as to the value of currently available water supplies, there is potential that an over reliance on it may result in inappropriate decisions and unintended consequences.

Key issues that would need to be further considered are: -

Availability

Where a significant proportion of a water supply comes from surface water systems generally availability is a function of climatic conditions in conjunction with the necessary infrastructure to harvest and store water. The concept of "availability" needs to be defined.

Equity issues

Given the level of "non discretionary" water use, scarcity pricing could in fact exacerbate financial hardship during periods of scarcity unless linked to financial assistance programs.

Consumer response

For consumers to respond they will require appropriate water consumption information and billing information at a suitable frequency.

This will likely require smart metering technology to measure water consumption in sufficiently short time periods. Such a roll out across an entire system would be expensive and may cost more than the economic benefits derived from scarcity pricing.

There is uncertainty regarding the price elasticity of demand resulting in difficulty in using scarcity pricing with any degree of confidence that the necessary reductions in demand would be achieved.

Investment decisions

Given the significant time necessary to obtain approvals, design, mobilise and construct significant water infrastructure phasing issues regarding time will be critical.

It would likely result in low water prices up to point of scarcity (little incentive to invest) high prices during point of scarcity (commitment to invest), drought breaks soon after new infrastructure commissioned, water supplier needs to sell more water to recoup investments (at lower water price than during drought) community encouraged to become less efficient, water supplier reluctant to invests in supply infrastructure resulting in a volatile cycle.

If it is possible that the necessary infrastructure can be commissioned in time such that a system does not run out of water (there is a greater risk that this cannot be achieved in the necessary timeframe) the provision of the infrastructure is unlikely to be procured in an economically efficient manner since

- Droughts tend to occur over large regions which would result in many water supplies needing to be augmented at the same time leading to boom bust cycles with the inherent high costs during a boom (even if sufficient resources could be mobilised in time).

- As the incentive of this approach would lead to investments being made during a time of shortage this would likely mean that the supply storages would be drawn down before the next supply augmentations was initiated resulting in the next supply source being likely to be over sized as it has less opportunity to be operated in an optimal manner with the original system.

- Supply options that require commissioning and storage of water prior to the shortage would not be initiated if the augmentation was required during the current scarcity period. This does not provide an appropriate signal for "real options".

DF 7.4 Agreed on the basis that benefits outweight the disadvantages. For example, such an approach may be worthwhile on a regional basis but may not be desirable in application across a single town or city.

DR 7.3 Disagree - see comments on scarcity pricing (DF 7.1)

DF 8.1 Agree – It is a key reason why water supply systems should be appropriately planned and investment decisions made prior to demands outstripping the supply capability.

DR8.1 Water restrictions should generally be used to ensure that continued supply can be assured during time of water shortage.

Given water costs generally represent a small proportion of a customers overall costs of living and its general ease of consumption it is very easy to use water in an inefficient manner.

Water savings rules such as those applied in Sydney eg no watering during the middle of the day are considered appropriate.

DR 8.2 Generally disagree - Introduction of mandatory water efficiency performance should be introduced where feasible and provides appropriate application performance.

Appropriate and balanced information is essential for appropriate decision making

DF 8.3 Agreed. It would be interesting if those advising a willingness to pay a higher price to avoid water restrictions would be willing to do so during the 95% of time that there are no restrictions (to pay for the additional infrastructure necessary to achieve this) or just during restrictions

DF 11.4 Disagree, as this is the type of approach that has seen the emergence of public perception of monopoly price "gouging" eg: airports. Is there any evidence that the water utilities are abusing their market power?

Yours faithfully

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WATER and SEWERAGE