

18 May 2011

Dr Wendy Craik
Presiding Commissioner
Inquiry into Australia's Urban Water Sector
Productivity Commission
Locked Bag 2, Collins Street East
Melbourne Vic 8003

Dear Dr Craik 

Productivity Commission Inquiry into Australia's Urban Water Sector

ACTEW Corporation Ltd (ACTEW) welcomes the opportunity to provide comment on the Productivity Commission's Draft Report of its inquiry into Australia's Urban Water Sector. The receptiveness of the Commission to ACTEW's previous submissions and presentations, as well as the recognition in the report of the leadership the ACT has shown in many of the aspects covered, is appreciated.

ACTEW notes the breadth of the Commission's Draft report and its substantial consideration of issues such as the legal framework for economic regulation, pricing of urban water and supply augmentation and planning decision making, which ACTEW agrees are central to progress of improving efficiency in the water sector.

In particular, ACTEW encourages the Commission to carry forward to its final report recommendations in the draft report dealing with:

- Economic efficiency should be broadly defined to include environmental, health and other costs and benefits that might not be priced in markets;
- Environmental and health regulators should be more transparent and accountable in their decision making;
- better delineation of the roles and responsibilities of the various bodies involved in the urban water sector;
- retail-distribution utilities as the most appropriate organisations to bear responsibility for the procurement of new water supplies and services;
- supply augmentation including the adoption of real options techniques; and
- wider consideration and adoption of flexible (or dynamically efficient) water pricing.

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In addition to these matters, ACTEW would be eager for the Commission to address more fully its recommendation to move away from increasingly heavy-handed regulatory price setting to a more light-handed regulation as the most cost effective option for the sector, and other potential improvements to the current regulatory arrangements should not be ignored.

ACTEW has also included, as an attachment, responses to information requests in the Draft Report for the Commission's information.

Yours sincerely

Mark Sullivan
Managing Director

ATTACHMENT

The Commission is seeking views about pricing principles. What should be included in these pricing principles so that they provide sufficient guidance for utilities?

In its September 2007 submission to the Independent Competition and Regulatory Commission's Water and Wastewater Price Review, ACTEW proposed that it be allowed full scope within revenue caps and agreed pricing principles to determine the structure and level of prices for water and wastewater services. The pricing principles proposed were as follows.

ACTEW's water tariff principles

ACTEW's proposed reforms have been developed in order to improve the performance of the price structure for potable water in the ACT in relation to the following key principles.

- Demand management – Prices should manage demand in accordance with relative water scarcity and the ACT Government's target reductions in per capita potable water use by influencing consumption behaviour, consumer investment and lifestyle decisions in the most efficient possible manner.
- Revenue recovery – ACTEW's component of the final water price should allow full recovery of the costs of an efficiently conducted business without imposing undue risk of under-recovery.
- Economic efficiency – Where possible marginal prices should reflect the long run marginal cost of supplying water and the externalities associated with water use. The majority of consumers should face the same marginal price for water;
- Equity and distribution – Prices should be responsive to considerations of equity and affordability, where Community Service Obligations (CSOs) cannot address these issues.
- Flexibility – The price structure should be flexible to allow prices to be responsive to changes in Government policy, supply availability, unforeseen costs, and consumer preferences.
- Simplicity – The price structure should be easily understood by consumers.

The Commission is seeking further information on how developer charges are levied in each jurisdiction, for both greenfield and urban developments. Do these currently provide adequate signals on the costs of servicing new developments? To what extent should developer charges be set periodically on an 'across utility' basis, or be specific to the development in question? Would more development specific charges, especially in high cost areas, encourage greater innovation? Would it be better for developers to build the required infrastructure according to standards set by the utility? If so, what issues would need to be addressed to operationalise this? What are the main impediments to introducing more efficient developer charges?

ACTEW believes that the need for developer charges should be assessed on a jurisdictional or case by case basis. A one size fits all approach is inappropriate.

Under the *Utilities Act 2000* (ACT), ACTEW is able to levy a capital contribution charge on developers for the development or augmentation of its network. However, ACTEW has not introduced a capital contributions policy.

To levy developer contribution charges, ACTEW would be required to develop a capital contributions code under the Act. ACTEW considers that the administration of such a code for water and wastewater sector assets would be resource intensive, and in any case a code would be of questionable merit in the ACT given the Territory's ordered approach to development, which removes the need for locational signals. As a result, ACTEW continues to fund required water and sewerage urban infill development.

Are ministerial directions common for Government Trading Enterprises (GTEs) in the urban water sector? If so, are they given formally, and are they publicly reported? Are informal directions seen as a problem?

Would independence, responsibility and accountability be improved by constituting utilities under the Corporations Act 2001 (Cwlth), rather than state water industry or general GTE legislation?

ACTEW is already a Corporations Act corporation, and its relationship with the ACT Government is set out in the Territory-owned Corporation Act (ACT). ACTEW considers this arrangement to be fully effective and a model for other jurisdictions.