


RESPONSE TO THE PRODUCTIVITY COMMISSION'S
Australia's Urban Water Sector - Draft Report



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1. INTRODUCTION AND BACKGROUND

The Water Directorate would like to thank the Productivity Commission for the opportunity to respond to the draft report, *Australia's Urban Water Sector*.

The Water Directorate is a membership association comprising 95 Councils and County Councils that provide water and sewerage services to approximately 1.9 million residents in regional NSW. Over 90% of eligible NSW Councils are members and we believe this high percentage is an indication of the Water Directorate's value and effectiveness as a technical advisory organisation.

2. THE WATER DIRECTORATE: BACKGROUND & ROLE

The Water Directorate's mission is to provide leadership and advice to Local Water Utilities (LWUs) in NSW, particularly on technical issues. We believe that we have been fulfilling this mission successfully for the past twelve and a half years.

Established in late 1998, the Water Directorate was initiated by local government water and sewerage practitioners who recognised that the structure and legislative framework for water authorities in NSW was not ideal following the abolition of the Department of Public Works. By forming an industry specific association, it was believed that the lack of coordination between government departments and local authorities, as well as the declining level of technical advice could be addressed.

Since our establishment we have provided consistent statewide management tools at a low cost to our members in NSW. We have spent more than \$4 million on developing relevant guidelines and technical documents and have supported the industry with valuable information that may not have been provided by State Government departments (a full list of our Technical Publications is on the website at www.waterdirectorate.asn.au).

The Water Directorate is a proactive organisation with many successful achievements over the past twelve and half years. In recent times we have been involved in a large number of activities promoting and encouraging the long term efficiency of the local government water industry.

Recent activities include:

- Publication of *Interim Blue-Green Algae Management Protocols* – November 2009

- Publication of revised *Backflow and Cross Connection Prevention Guidelines* – January 2010
- Joint sponsorship of the AWA and Water Directorate Ozwater Conference Attendance Award – May 2011
- Hosting the Water and Electricity Safety Presentations at WIOA State Conference 2010 – April 2010
- Sponsorship of the NSW Operator of the Year Award at the WIOA State Conference – April 2011
- Sponsorship of the IPWEA Excellence Award Innovation in Water Supply and Wastewater – May 2011
- Hosting the Water Managers Forum at the LGSA Water Management Conference in Orange – September 2010
- Distribution to members of the fifth WIOA *Practical Guide* to all NSW LWUs – November 2010
- Continued joint management (with the LGSA) of the \$22 million Water Loss Management Program (WLMP) in partnership with the Australian Government (through the Water Smart Australia program) – this is a five year project due for completion in July 2011, which has seen savings of 6000 ML/year in water loss rectification works.
- Administering a discussion forum on our website for subscribers to send queries and comments to all our members. This is a very successful on-going knowledge sharing tool.

At our planning meeting in November 2010 the Executive Committee agreed to again participate in all the conferences and sponsorships of awards as listed above and in addition set the following goals for 2010/11:

- Sponsor an Award for Environmental Best Practice for Water Utilities at the LGSA's Environment Awards
- Publish a *Design of Fire Flows Guidelines*
- Publish a *Land Acquisition Manual* in conjunction with the NSW Roads and Transport Directorate.

These projects are all considered necessary tools for the local water industry to operate effectively. They are documents that are not being prepared by other government agencies and therefore we have taken it upon ourselves to coordinate and fund their production. A copy of our most recent Annual Report for 2009/10 is also available on our website at www.waterdirectoriate.asn.au

3. THE NSW WATER INQUIRY

In January 2009 the NSW Government released a report detailing the results of its Inquiry into Secure and Sustainable Water Supply and Sewerage Services for Non – Metropolitan NSW (the Armstrong/Gellatly Report). The Water Directorate responded to that report in April 2009. The report and our response is available at www.water.nsw.gov.au

The key elements of our response to the Armstrong/Gellatly Report were:

- support for the following models or combination of models for the provision of water supply and sewerage services in NSW: -
 - regional mandatory alliances
 - county council (service provision only)
 - county council (including asset ownership)
 - regional council aligned to catchments or sub-catchments
- rejection of the “one size fits all” solution
- rejection of the “Victorian model”
- recognition of skills shortages in some NSW LWUs (LWUs)
- belief that NSW LWUs are complying with public health regulations and that Sewage Treatment Plants are meeting EPA licence requirements
- most LWUs have undertaken fair revaluation of their assets to determine depreciation

4. RECOMMENDATIONS OF THE PRODUCTIVITY COMMISSION DRAFT REPORT

4.1 General

The Water Directorate generally concurs with the Recommendations contained in the Productivity Commission Draft Report, as discussed below.

Our major concern is the use of and reference to the Infrastructure Australia (AECOM) Report, to which we have responded. The Water Directorate's response to the Infrastructure Australia (IA) Report has been provided previously to the Productivity Commission and is quoted in this response.

Our principal objections to the IA Report are summarised in Section 5 below.

There are a number of recommendations in the Productivity Commission's Report we have chosen not to comment on, on the basis that they will be better addressed by the NSW Office of Water and the larger utilities.

4.2 Draft Recommendation 3.1 - Objectives

The Water Directorate fully supports the Objectives outlined, but advises that the supply and management of **stormwater services** is a function of local government councils in NSW and, we understand, elsewhere across Australia.

4.3 Draft Recommendation 6.1 – Supply of water, wastewater and stormwater services

Again, we generally concur with this recommendation; but would point out that the adaptive management approach is typically utilised by NSW LWUs in determining the costs and benefits of all supply augmentation options. This is the approach promoted by the NSW Office of Water.

We also strongly agree with the removal of bans on rural-urban water trading.

We would also welcome any initiatives which make it simpler to implement reuse schemes, particularly in NSW. We would, therefore, support a review of the Australian Guidelines for Water Recycling with a view to better facilitation of reuse schemes in regional Australia.

4.4 Draft Recommendation 6.2 – Subsidies

We generally support the principle that governments should not provide subsidies for urban water infrastructure, except for those small utilities and communities where augmentation/refurbishment is not affordable.

Many of these small, regional communities are somewhat disadvantaged socio-economically and are generally experiencing declining populations (resulting in a smaller rate base).

Typically, these communities have an aging asset base which is in need of replacement or refurbishment. We believe that special consideration, by way of State Government subsidies and/or grants, should be afforded to these communities to ensure reasonable levels of service (at affordable costs) and the protection of public health and the environment.

4.5 Chapter 7: Pricing of Water & Wastewater

- Information Request: Developer Charges in regional NSW are set by LWUs in accordance with their Developer Servicing Plans (DSPs), which are a best practice requirement of and require approval from the NSW Office of Water.

The DSPs must determine and include “commercial developer charges” as required by section 64 of the Act. Similar charges are levied for stormwater services under section 94 of the Local Government Act.

- Draft Finding 7.1 – flexible (scarcity) pricing

In principle, the Water Directorate does not support scarcity pricing in that will add a further layer of complexity to pricing and, as such, may not be to the benefit of regional communities (who are past masters at managing water supply during droughts).

Such a pricing mechanism may also seriously disadvantage the financially vulnerable sections of these communities.

We would support a review of pricing with a view to consideration of “flexible” options and would welcome the opportunity of input, from our member base, in such an investigation and review.

- Draft Recommendation 7.1 – provision of meters to all new single & multi unit dwellings is supported.
- Draft Recommendation 7.3 – providing more consumer choice in setting urban water tariffs.

Although we have no objection to this recommendation, in principle, we caution against adding any complexity to the charging regimes currently set by LWUs in NSW.

We generally agree that uniform pricing principles should be developed by the jurisdictions but without actual price-setting by State-based economic regulators. We would continue to work closely with the NSW Office of Water in establishing and implementing appropriate pricing principles.

We refer the Productivity Commission to the Pricing Guidelines current in NSW (as developed by the NSW Office of Water back in 2002) and would commend these as an excellent starting point for establishing national criteria and guidelines.

4.6 Chapter 8 - Non-price demand management

Water restrictions in regional NSW are only applied in the case of water shortage (droughts) or emergencies. They are implemented in accordance with a LWUs Drought Management Plan which is approved by the NSW Office of Water as one of the six Best Practice requirements for LWUs.

The Water Directorate fully supports the WELS scheme as an important component of demand management.

With respect to Draft Recommendation 8.2 we agree that “water use efficiency and conservation activities” should not be mandated. However we are of the view that they should be effectively supported.

4.7 Chapter 9 – Achieving affordability & consumer protection activities

The Water Directorate generally supports Draft Recommendations 9.1, 9.2 and 9.3 and would like to be involved in the review of water utility service concessions, consumer protection principles and measures to support consumer advocacy.

4.8 Chapter 11 – Institution centred reforms

Although not specifically commenting on Draft Recommendations 11.1, 11.2, 11.3, 11.4, 11.5 and 11.6, we would like to be involved in the development of water industry charters and governance arrangements (as they apply to regional LWUs).

In terms of Draft Recommendations 11.7 and 11.8, we fully support the removal of impediments to rural-urban trade and the existing bans (in NSW) which prevent trade between regional water utilities (particularly if they are within the same catchment).

The freeing up of these bans would provide significant flexibility to LWUs in demand management, particularly during droughts.

4.9 Chapter 13 – Reform in regional areas

The Water Directorate supports the general thrust of Chapter 13 and the recommendations put forward by the Productivity Commission. The rapid development of alliances of LWUs in regional NSW has been widely acclaimed as an appropriate and successful model.

The Lower Macquarie Water Utilities Alliance and the Central Regional Organisation of Councils (CENTROC) Water Utility Alliance are alliances and partnerships involving eight and sixteen LWUs, respectively.

Other emerging alliances we are aware of are the Upper Hunter Alliance (three LWUs) and the Northern Regional Organisation of Councils (NOROC) Alliance (eight LWUs).

The successes of the Lower Macquarie Water Utilities Alliance in less than three years of operation include:

- development of regional best practice strategies (Drought Management, Demand Management and Integrated Water Cycle Management);
- development of regional resource sharing, training and mentoring programs;
- development of a regional Drinking Water Quality Management Plan;
- development of a regional Stormwater Harvesting Strategy;
- peer reviews of its members' annual performance monitoring reports to the NSW Office of Water.

Quite apart from our strong support for Draft Recommendation 13.1 (aggregation of water and wastewater utilities, including county councils, regional water corporation and regional alliances), we also support Draft Recommendation 13.3 that the State Government "should subsidise the provision of water supply and wastewater services in regional areas where it is uneconomic for the utility to provide these services safely and efficiently".

The breakdown in funding for the Country Towns Water Supply and Sewerage Program since 1996 has seriously disadvantaged some of the very small, often remote and disadvantaged communities in regional areas and this situation must, we believe, be addressed and redressed.

In terms of Draft Recommendation 13.5, the requirement for LWUs to comply with the health critical elements of the Australia Drinking Water Guidelines is now mandatory in NSW under the Public Health Act and a detailed Regulation thereunder is expected to be gazetted in late 2011 or early 2012.

We would also like to clarify that rate pegging in NSW applies only to the General Fund of Councils; not the Water and Sewerage Funds (Information Request, page LV).

5. THE INFRASTRUCTURE AUSTRALIA (AECOM) REPORT

As briefly discussed above, the Water Directorate has made a submission to Infrastructure Australia on the AECOM Report: "Review of Regional Water Quality Security, October 2010". Our submission is highly critical of the Report and its recommendations, to the point where we believe it to be essential that any references to it in the Productivity Commission's final submission to Government

must not be included unless it can be demonstrated that each particular reference has been independently verified.

As advised in our response to IA, our primary concerns with the Report are:

- Many of the systemic problems that are claimed to exist in the AECOM Report are in fact already the subject of policies and procedures developed by the NSW Office of Water (and its predecessors) and have been effectively in use in regional NSW water utilities for many years.
- In general terms the AECOM Report substantially overstates and exaggerates the risk to human health of current water treatment practices in smaller LWUs in regional NSW. The report is unnecessarily alarmist with respect to micro-biological compliance. The performance of NSW is well within ADWG standards, and there are as many towns in regional Victoria that have occasional E. Coli failures in their drinking water supply networks as there are in NSW.
- The NSW Office of Water has for many years provided and facilitated high quality water and wastewater training courses. Therefore, the availability of training is not considered a significant issue; however, attracting and retaining skilled labour is an intermittent problem, as it is with most sections of Australian industry.
- We believe that the IA/AECOM proposed solution for regional water supply utilities, being larger regional, corporatised entities, is simplistic in that it ignores the basic geographical constraints to such a proposal and would effectively remove the water related functions from the scope of works currently undertaken by general purpose Council staff. Such a move would make it even more difficult to attract qualified staff to these regions, thereby presenting a much greater problem for these regional Councils.

The AECOM suggested solution is merely problem shifting, not problem solving.

The Water Directorate strongly objects to any proposal that strips water assets from their current owners and places them in the ownership of Government owned regional corporations which then charge higher prices so that a dividend can be levied from the original owners. NSW regional communities are already facing significant financial challenges in meeting infrastructure requirements such as roads, drainage, community facilities as

well as water. Stripping a dividend from these communities for their water services would further exacerbate these overall community needs.

- A major deficiency in the AECOM report, we believe, is that it fails to adequately address the costs/benefits associated with implementing its proposed recommendations, particularly the costs and disadvantages associated with creating regional water corporations. Within NSW most regional water systems are operated by general purpose Councils. This provides benefits to the community in the form of lower water prices resulting from economies of scope, better environmental and lifestyle outcomes resulting from integrated planning and development approval, and better customer service provided by a local and convenient Council or County Council office.

These economies of scope arise because the water functions such as governance, management, planning, technical services, asset management, information systems, customer service, administration, finance, maintenance and repair facilities, plant and equipment etc are being provided **within Council's overall general works functions**. This resource sharing arrangement results in lower costs for both the general works and the water functions.

- The cost of disaggregating each Council's water business into a regional corporation would be significant. For most regional Councils the water business represents between a quarter and a third of the Council's total operational budget. Most councils have staff that are multi skilled providing economies of scope efficiencies for the community. Disaggregating such functions will result in costs associated with underutilised resources in one or other of the resulting entities. Some staff would inevitably leave the general purpose Council left behind due to there being a perceived loss of variety in the work remaining available to them.
- A major economic and social problem facing regional NSW communities is the shift of skilled workers from small to larger regional centres. The creation of larger regional water corporations, presumably with offices in the major regional centre, would, we believe, exacerbate this problem.
- Through the Best Practice Management process developed by the NSW Office of Water over many years, NSW has in place a sound basis for planning, operational management and pricing of regional water supply schemes. The Water Directorate supports initiatives that build on this basis to address specific problems identified in the AECOM report. For example the AECOM report specifically mentions inconsistent water restrictions within catchments

as an example of a systemic problem. The Lower Macquarie Water Utilities Alliance (for example) has adopted common water restriction levels for its eight member Councils, along with Bathurst and Orange, the two largest regional centres further upstream on the Macquarie River. Such an approach could be extended to all catchments by minor amendments to existing IWCM planning requirements.

- The Water Directorate supports planning at the catchment level and the achievement of best practice among regional NSW utilities through the application of sensible and common policy and procedures. Where it can be demonstrated that these objectives can best be met by alliances, County Councils, joint ventures, Council Owned Corporate entities or another structure, these options should be pursued to the extent that they provide a positive return for the community. Given the geographic, demographic, climatic and socio – economic diversity in regional NSW, together with the associated differences in water availability and demand profiles, it is overly simplistic to expect that a “one size fits all solution” will provide positive cost/benefit returns to all regional communities in meeting their water needs.

The Water Directorate's overall comments and recommendations in responding to the IA/AECOM Report were:

1. Mandatory compliance with *Australian Drinking Water Guidelines* (ADWG) has already been legislated by the NSW Health Department in 2010 and is supported. This compliance is well progressed within regional NSW.
2. The NSW Health Department has a health based regulatory role associated with drinking water quality. Refinement of this role to conform to a national standard is supported.
3. The NSW Office of Water is responsible for independent monitoring and reporting of water quality performance of regional NSW water utilities. IPART also has a regulatory role. Refinement of their roles to conform to a national standard is supported.
4. NSW regional water utilities operate under a Best Practice Management Framework. A national standard that builds on this framework is supported.
5. NSW regional water utilities have in place a Best Practice Pricing Policy. A national standard that builds on this policy is supported.
6. NSW, through the NSW Office of Water, has in place well developed operator training courses. A national standard that builds on this model is supported.
7. Structurally disaggregating water utilities in NSW is not supported. There are significant financial, social and environmental costs in disaggregating water supply functions from local government in NSW and forming regional

corporations. The AECOM report does not address these costs and other key issues nor present any well substantiated arguments for its proposed recommendations to form regional corporations. The report has been based on selective and often questionable data and provides recommendations that are inconsistent or inadequately supported by the report content.

We note that in the Productivity Commission's Draft Report, there are a number of references cited to the AECOM Report. This has the potential to be problematic for the Productivity Commission's final report if left unchallenged.

Based on our assessment of and response to the AECOM Report, particularly in terms of the lack of research and the number of factual errors, we would caution against reliance on the findings contained therein because they render the Productivity Commission's own good work open to valid criticism as a result of reliance on what is essentially unreliable information.

Our specific responses to these particular references, which are cited in your Chapter 13, are presented below:

- Properties without water meters (Page 373): Despite AECOM's claim that "the percentage of domestic properties without water meters is considerably higher in regional areas relative to city centres", I wish to advise that in reality 99.94% of all properties in regional NSW are metered. The only town without meters for its potable supply is the small town of Brewarrina with 470 connections. The NSW Office of Water will confirm this statistic if required.
- Variability of charges for water supply (Page 373): This is true but surely only reflects the varying costs of infrastructure, management and operations across extremely diverse topographical, demographic and climatic regions. It should be noted that AECOM talks favourably elsewhere within their report of postage stamp pricing as a policy option for water utilities, and this seems to have flavoured their opinion that variable pricing across regional areas of NSW is somehow undesirable.
- "...a water utility should be able to raise the capital for any alterations or additions to their existing system..." (Page 376): We believe that this IS typically the situation in regional NSW, backed up by funding opportunities under the Country Towns Water Supply and Sewerage Program. As discussed above, we acknowledge that there are some remote and socio-economically disadvantaged areas where the communities face difficulties in funding necessary infrastructure replacement and upgrading and refurbishment works, but these are the exception – not the norm. We support the

continuance and even expansion of State and Commonwealth subsidies in these cases to ensure delivery of satisfactory levels of service.

- Full cost recovery (Page 377): The statement that “Less than full cost recovery is a common feature of water utilities servicing regional areas” is simply not true.
- According to the NSW Office of Water's Performance and Benchmarking Reports for 2008/09, full cost recovery is, in fact, achieved by 96% of NSW LWUs. We do not understand how a reputable consultant charged, with researching the water utilities serving some 1.9 million people in regional NSW, could not find the information needed to answer the question they chose to raise. The Benchmarking Reports from the NSW Office of Water have been around for 25 years, and should have been the first port of call for any researcher.
- Revenue generating capacity (Page 382): The AECOM report states “... many utilities servicing regional towns are not recouping the costs of supplying water, let alone providing for capital improvements”. This is, again, simply not true. The NSW Office of Water has been requiring LWUs to prepare Strategic Business Plans (SBPs) and Financial Plans to a specified format since 1993. These SBPs require, and ensure, that NSW LWUs do recover all costs, including those required for current and future recurrent capital expenditures (renewals, improved standards and growth).
- At least a 20 year forward projection of capital requirements and operating costs (30 year preferred) is required. In many instances lower prices in LWUs reflect greater efficiency of operation. NSW has historically been at the forefront of business planning for water utilities and the model by the NSW Office of Water is potentially a vehicle for a nation wide process.
- Skills shortages (Page 384): As noted in the Productivity Commission's Draft Report, there is a national shortage of skills, experience and knowledge, not just in regional areas and this, we believe, has been recognized not only by peak bodies like the Australian Water Association, but also the Federal Government.

In regional areas, the situation is actually often better, because the water supply and sewerage functions are managed by local government. The benefits of local government ownership are:

- **multi skilling:** staff are trained and capable of efficient performance across a range of municipal activities, including water supply and sewerage, with the added benefit of efficiencies of scope.
- **resource sharing:** this has occurred across local government in regional areas of NSW for a long time and is being developed and enhanced under the Alliance model to which we subscribe.
- the **retention of these skills in regional areas retains employment**, but just as importantly, it means that these communities (some of these are very isolated communities) obtain **a local service**; something they would not get if the functions were centralised.

The statement that “treatment plant operators working in regional areas do not receive access to the same level of training provided in the larger metropolitan areas” is very simplistic and bears no relationship to the overall contention that centralisation of water utilities is the panacea.

The NSW Office of Water conducts nationally accredited, regional, training courses for water supply and sewerage operators, as well as in Trade Waste regulation. This classroom training is followed up by on-site assessment of each Council operator by one of eight Inspectors employed by the Office of Water to ensure that the training has been absorbed by the trainee, and that skills taught are being successfully implemented at the actual treatment plant that operator works in. These eight Inspectors also circulate throughout the State and regularly inspect all plants for evidence of continuing compliance by operators, and to mentor same as may be appropriate. To the best of our knowledge, we know of no water utility in regional NSW which does not take advantage of these training programs and the Inspectorial follow up.

- Drinking water quality (Pages 387 & 389): The data used by AECOM is not only out of date and not sourced from the best available Government databases in NSW, but was very selectively chosen from only 18 water utilities in NSW and a similar number in Victoria on the basis of “their known or likely water quality and/or security issues. Therefore it should be noted that the towns investigated are not a standard sample and, as such, the data may be statistically skewed. The information was gathered to provide an indication of the largest risks to water quality and security, rather than the likelihood of those risks.” In reality 99.3% of all samples tested from regional NSW in 2008/09 passed the necessary microbiological standard (no E. coli), noting that the ADWG standard for same is better than 98%. The generalisations in the AECOM Report about risks to public health are very alarmist and overstate the problems that exist to a large degree, a point which should be confirmed directly with the relevant NSW Government

agencies (NSW Office of Water and Health NSW) prior to the Productivity Commission simply accepting without question the AECOM contentions.

- Cost savings from aggregation (Page 395): "...The annual water bill in Victoria (is) approximately 20% cheaper than the annual bill in regional New South Wales..."

Reference to the 2008/09 *Water Supply & Sewerage Performance Monitoring Report* shows:

- average operating cost for water in Victoria: \$389/connected property; compared with \$330/connected property in NSW
 - average operating cost for water supply & sewerage combined in Victoria: \$710/connected property; compared with \$670/connected property in NSW
 - median ERRR for Victorian regional utilities: 0.4%; compared with 0.6% in regional NSW
- On Page 399, reference is made to "... many small towns are currently without water treatment because the increase in residential bills required to recover the cost would be substantial"

Again, this is not true and we question the source(s) of AECOM's data and assertions.

For many decades (most of the 20th century) the NSW Government's Public Works Department subsidised, and for the most part, built water treatment plants for towns and villages down to populations of 200, or less in some localities, where such treatment was warranted. Surface water supplies in regional NSW receive comprehensive multi-barrier water treatment at the level of sophistication needed to assure a high quality potable water supply. Where source water quality is high and does not require filtration, however, it is not sensible to burden customers with the high cost of providing filtration, an approach in keeping with that of the risk-based management framework enshrined within ADWG 2004. Victoria, on the other hand, seems to have a large number of towns without filtration (53 localities relying on surface water supplies, according to page 11 of the AECOM report).

Also, on Page 9 of the AECOM Report, "Water pricing can play a significant role in raising revenue and reducing water consumption." NSW LWUs have been applying these principles in an exemplary fashion for more than a decade now. Pay-for-use pricing was introduced in NSW in 1996/97. Since 1991 pricing and other demand management measures have achieved a 47%

reduction in residential water supplied per connected property, yet the Typical Residential Bill has been maintained broadly unchanged (\$410 in 1999/2000 compared to \$430 in 2009/10), thus maintaining a strong and sustainable revenue flow for NSW LWUs.

- Catchment versus local government boundaries (Page 400): There is more than sufficient water planning at a catchment level now in NSW. It is a Best Practice requirement for LWUs to prepare Integrated Water Cycle Management Plans (IWCM's) which are at least the equal of anything prepared in other States. The standard recipe automatically requires a Council, or its consultants, to rigorously investigate the boundaries of the water system, detailed whole-of-catchment information, all catchment related targets and requirements, all legislative obligations, and climate change in both a global and a NSW context.

More broadly Water Sharing Plans in NSW were some of the first developed in Australia. The AECOM report itself (page 27 of Volume 1) highlights the NSW approach as presumably best practice within Australia. Local Government is well represented on the various Catchment Management Authorities and the valley-based Customer Service Committees of State Water, the bulk water provider for most of inland NSW. Alliances of LWUs have now evolved covering much of the Lachlan and Macquarie Valleys which serve as inter-town planning bodies for water resource management. LWUs in NSW are already closely networked with each other, Government agencies dealing with catchment-wide issues, and other community stakeholders. To suggest otherwise is simply incorrect, and denigrates the current performance of regional NSW in this area most unreasonably. It is also not realistic to claim that water and sewerage utilities MUST be catchment based to be effective and efficient. Not all Victorian water authorities are, either! Some catchments simply do not have the necessary community of interest or commonality of water source to make such a policy position sensible, and the Productivity Commission's final report should not imply same by continuing to reference the AECOM position uncritically.

- Regional water corporations (Page 412): "The larger corporate structure is likely to give rise to increased efficiency". We are not convinced by the logic of "efficiency gains" by centralised organisations and this statement in the AECOM Report is made without any evidence to validate it. As pointed out in the Directorate's response to Infrastructure Australia, LWUs actually generate significant economies of scope by being located within the parent Council's corporate structure, and in many cases these more than counteract the much discussed economies of scale which large regional corporations are claimed to generate. The Alliance models being developed in NSW, and demonstrated by

the results achieved to date by the Lower Macquarie Water Utilities Alliance and the CENTROC Water Utilities Alliance demonstrate even more appropriate and significant gains.

How did AECOM measure and compare efficiencies? We doubt that there was any rigorous analysis undertaken.

- Drinking Water Guidelines (Page 426): In regional NSW (from 2010), the Public Health Act was amended to mandate compliance with the “health critical” elements of the *Australian Drinking Water Guidelines*. The AECOM Report was therefore already out of date in this regard when it was published. The inference that the NSW Government or that LWUs were somehow “afraid” of ADWG being made mandatory must not be allowed to stand. In fact the industry requested Armstrong and Gellatly back in 2008 that this should in fact happen.

6. SUMMARY

As outlined above, the Water Directorate supports the Productivity Commission’s findings and most of the recommendations. We agree with:

- the Objectives outlined under Draft Recommendation 3.1;
- Draft Recommendation 6.1, but point out that adaptive management processes are already applied in the development of supply augmentation schemes in regional NSW;
- the removal of bans on rural-urban water trading and trading between regional water utilities;
- the provision of subsidies for small utilities and communities for infrastructure and service provision (where it is uneconomic for the utility itself to provide these);
- the provision of meters to all new single and multi unit dwellings;
- the provision of more consumer choice in setting urban water tariffs, providing such charges do not add complexity or disadvantage sections of the community;
- uniform pricing principles within which LWUs would continue to set their own charges;
- the proposal that water use efficiency and conservation activities not be mandated, although such measures should be strongly supported in inland, regional areas;
- the proposed governance models for regional areas.

We do not agree with:

- scarcity pricing – although we support a general review of pricing with a view to consideration of flexible options. We would welcome the opportunity to be actively involved in such an investigation and review;
- the general thrust of and recommendations contained in the IA/AECOM Report. Similarly, we do not support the findings of the National Water Commission's Report: "Urban Water in Australia: Future Directions", as they apply to regional NSW.

We advise as follows:

- we would support a review of the Australian Guidelines for Water Recycling with a view to enabling better facilitation of reuse schemes in regional Australia;
- Developer Charges in regional NSW are set in accordance with Developer Servicing Plans developed by LWUs in accordance with criteria set by and approved by the NSW Office of Water;
- water restrictions in regional NSW are only applied in the case of water shortage or emergencies and are not used routinely as a demand management mechanism;
- compliance with the health critical elements of ADWG is currently going through the processes for mandating by gazetted Regulation in 2012, under the NSW Public Health Act;
- rate pegging in NSW applies only to Councils' General Funds, not for Water and Sewerage Funds.

We look forward to further input and discussion at the public hearing scheduled for Sydney on 31 May 2011.
