

## Urban water

I have two interests in this inquiry. One is as an academic teaching public finance, which includes issues in provisions of utilities. The other is as a resident of Canberra, where our water utility (ACTEW) is engaged in a round of consultations on water restrictions.

ACTEW's frame is telling. It is "How should water restrictions look in the future". It's web-based survey is about forms of non-market mechanisms.

Market-based allocation seems to be out of the question, as if it is too radical.

It is hardly surprising that the Commission in its inquiries so far has had difficulties in establishing basic market data, particularly the crucial question of price elasticity in domestic markets, because we don't have a market.

Technological conservatism bears much of the blame. Our water metering and billing systems are primitive – even worse than our electricity metering and billing systems. The Commission's draft report gives these issues no more than passing reference, but they are basic impediments to the formation of rational markets.

There are technologies which enable instantaneous measurement of water flows. Flow meters have been around for at least a half-century. Modern cars have dashboard displays showing instantaneous and time-interval fuel flows.

Applied to water, wireless technologies can relay such data to user-friendly indoor displays, which, with an internet connection, can be integrated with pricing data.

Such technologies allow for many possibilities:

- much more consciousness of water use and prices;
- cleverly shaped tariffs, with initial free allocations and steeply rising prices;
- prices set in relation to storage levels and inflows;
- cost savings as the labour-intensive task of meter reading is eliminated;
- the abolition of paternalistic restrictions.

Instead of canvassing these possibilities, our utility, ACTEW, is still in a Soviet-era rationing mindset. In fact, it's worse, for ACTEW's rationing models are concerned with the ways we may use our water – to wash our cars, to flush our lavatories, to water our lawns. At least, in the Soviet era, when Russians finally got their bread, they were at liberty as to the use to which they would put it: they could choose whether to toast it, dry it into croutons or to feed it to domestic animals. Our utility companies are even more paternalistic.

When the Commission finally reports, it needs to place much more emphasis on these market-failures – a market failure arising from institutional conservatism. Otherwise governments will go on accepting the status quo of quantitative rationing, to the detriment of our environment and with opportunity costs in terms of equity and allocative efficiency.

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