



PRODUCTIVITY COMMISSION DRAFT REPORT AUSTRALIA'S URBAN WATER SECTOR

South East Water Response
May 2011

Contents

Productivity Commission Draft Report South East Water Response.....	2
1. Background.....	2
2. South East Water.....	3
3. Current Environment – Melbourne.....	4
Planning for water resources.....	4
Regulatory Environment.....	4
Competition – Resource.....	5
Competition - Service.....	5
Governance and design.....	5
4. Reform considerations for Melbourne.....	6
Objectives.....	6
Institutional design.....	6
Governance.....	7
Planning framework.....	7
Competition.....	8
Large users.....	9
Economic regulation.....	9
Environmental and health regulation.....	9
Tariffs and choice.....	10
The nexus between retail tariffs, new customer contributions and access pricing.....	11
Non price measures.....	11
5. Specific Recommendations.....	12
Objectives, roles and responsibilities.....	12
Price and non price measures to manage demand.....	13
Institutional Reform.....	14
Augmentation and decision making.....	14

Productivity Commission Draft Report

South East Water Response

1. Background

The Productivity Commission (the Commission) released its draft report on Australia's urban water sector on 13 April 2011. The report has been developed on the request of the Australian Government to identify the case for micro-economic reform for resource allocation and efficiency. In particular, the Government asked the Commission to identify the opportunities for efficiency gains, the options to achieve those gains and a work program for implementation.

The Commission has subsequently sought inputs from stakeholders into the draft findings of its review and comments with respect to its draft recommendations.

South East Water is pleased to respond to the draft report. This response provides:

- background on South East Water (chapter 2);
- a discussion on the current frameworks in Melbourne that influence our response to the Commission's recommendations (chapter 3);
- a discussion of short and medium term reform directions for the Melbourne Water Industry that may provide benefits and therefore are worthy of further consideration (chapter 4); and
- specific responses to key recommendations made by the Commission (chapter 5).

2. South East Water

South East Water is a State-owned company and one of Melbourne's three metropolitan retail / distributor businesses. We provide water, sewerage and recycled water services to residential, commercial and industrial customers within our geographical boundaries.

Our service area is some 3,640 square kilometres which fronts approximately 300 kilometres of coastline.

South East Water distributes over 125 billion litres of water to 1.47 million people and industries through our pipelines after buying bulk potable water from Melbourne Water. These pipelines are connected to our service reservoirs and major water tanks. Additionally, South East Water provides approximately 4.5 billion litres of reticulated recycled water to a growing number of customers.

1

South East Water collects over 100 billion litres of wastewater from our customers, of which 90% is transferred to Melbourne Water's treatment plants at Werribee and Carrum. The remaining wastewater is collected from outlying areas and is treated at one of South East Water's eight sewage treatment plants. This is then used as recycled water or discharged to Melbourne Water's South Eastern Outfall.

South East Water has an extensive capital program for managing our water and sewerage infrastructure to ensure customers are provided with a high quality, reliable service. Our Asset Management Strategy forecasts infrastructure requirements over 25 years and is regularly reviewed and adjusted.

The infrastructure program is supplemented by partnering initiatives with our customers and key stakeholders to deliver water efficiency, education and community programs to help customers better manage their water and wastewater requirements.

The efficiency in the delivery of these services is achieved via innovative operations, maintenance and capital delivery business models, including the **"us-Utility Services"** alliance with our partners Thiess Services and Siemens. These models and broader South East Water initiatives have been a key driver behind our excellent performance on a range of metrics reported annually via the National Water Commission. Further information on this performance is provided in Chapter 3.

A key focus of all our activities is to meet our customers' changing water needs and promote responsible water resource management across our customer base. We are committed to customers driving our business and continue to develop products and services that meet their requirements. This approach is supported by actively seeking growth in non-regulated business activities. For example, we are currently providing business-to-business and business-to customer solutions, such as hot water services, plumbing and after hours call centre services.

3. Current Environment – Melbourne

The last 15 years has seen considerable change in the management of water in Melbourne and Victoria. As outlined below there is a strong, established base from which the cornerstone requirements of planning, regulatory arrangements, governance models, institutional design and the basis of competition can further evolve. In the continuum of possible structural options proposed by the Commission, Melbourne is towards Option 4.

Planning for water resources

For Melbourne, planning for long term water resource management is a tiered and adaptive process that is currently based on:

- Policy statements, such as those contained in government white papers;
- The preparation, and ongoing review of a water resource strategy for the Central Region;
- The collaborative preparation of a joint water supply demand strategy by the Melbourne water industry, in consultation with the community and stakeholders;
- The setting of major supply augmentation programs, coupled with per capita consumption targets and recycled water targets;
- Preparation of water efficiency, recycling and drought response plans; and
- The inclusion of these activities in prices through independent economic regulation.

Regulatory Environment

The relationship between Government and South East Water is specified in the Water Industry Act and subordinate Statements of Obligations. These documents set out roles, responsibilities and obligations.

Linked to these obligations is an independent, deterministic price and service regulation framework led by the Essential Services Commission (ESC). The ESC has been regulating service since 1995 and prices since 2004.

Service performance over the last 15 years is described in the ESC's annual performance reports, which are now also represented in national reporting. The most recent national report contained the following highlights for South East Water in terms of relative performance amongst the 11 water utilities with greater than 100,000 connections:

- Third lowest in the industry for water main breaks and also sewer main breaks and chokes;
- Lowest for sewer breaks and chokes in property connections;
- Second lowest amount of 'real' losses from the mains, service reservoirs and service connections before the meter;
- Lowest average time (82 minutes) that a customer is without a water supply;
- Second lowest total water and sewerage complaints as well as customer bills; and
- Second highest percentage (95 percent) of calls answered within 30 seconds (in this context, high performance is a positive).

Broader regulatory processes are also relevant to the customer interface with existing aspects including:

- Established customer service charters and codes;
- Standard plumbing and metering requirements;
- Efficiency labelling under WELS schemes;
- 5 star homes specifications and regulated appliances such as dual flush toilets; and

- Developer funded infrastructure provision.

Competition – Resource

There is a well established system for the allocation and use of water across Victoria. Under a three tiered system, South East Water has entitlements to all of the storages supplying our customers. The entitlements prescribe South East Water's rights to inflow, capacity, outflow of the storages and volumes in store. Given the nature of the "connectedness" of the supply system in Melbourne, these rights are pooled with the other two retailers and are therefore utilised collaboratively. This will extend to the new source augmentations now underway.

There are also well established protocols and practices with respect to drought management and restrictions on use in times of shortage. Under this framework, and with consideration to advice from the water businesses, the Minister for Water makes announcements around moving between the different stages of restrictions.

The "environment" also holds entitlements to water in storages and the three retailers have obligations to ensure that these entitlements are delivered, together with a specific range of passing flow requirements from storages.

The resource management framework also allows the Minister for Water to declare periods of water shortage and restrictions of entitlements, including environmental entitlements.

Competition - Service

Since its inception, South East Water has used the benefits of the competitive market to deliver operating and capital cost efficiencies to the business. The original concept of "schedule of rates contracts" has evolved through partnerships to an alliance for the delivery of a range of operations, maintenance and capital delivery activities. The cornerstone of the current alliance is a common sharing of the strategic goals of South East Water into the financial and non financial performance metrics of the alliance. The culture of the alliance is now inextricably linked to that of South East Water as all partners strive to achieve the same outcomes.

Innovation is also a fundamental component of the alliance. Many leading edge solutions have been adopted in order to improve both the bottom line and the customer experience. Some of these include state of the art service vehicles and technology, leak detection tools, pipe repair and rehabilitation processes, hydrographic services and traffic management.

Governance and design

As outlined above, the horizontal separation of the original Melbourne Water into three retail / distribution businesses has facilitated the delivery of improved services to customers over time. The vertical separation of the wholesaler (water and sewerage treatment) has also allowed efficiencies to develop via the clear delineation of roles and responsibilities.

There has also been clear delineation between the roles of government, regulators and water businesses – although that has certainly been challenged during recent years given the impacts of climate change and the need for major augmentations.

The final cornerstone in the Melbourne model is the existence of corporations law companies resourced by skills based directors. The disciplines created by this model have ensured that the decision making of water businesses are robust and commensurate with best practice.

4. Reform considerations for Melbourne

The Commission, in its draft report, clearly recognised that each jurisdiction in Australia is at a different state of reform. Each model is different and South East Water would support the Commission's recommendation to get the fundamental principles right before structure is considered. It is clear to South East Water that one model does not fit all at this point in time.

As a consequence the following section outlines a potential reform path for the short to medium term for Melbourne that considers its current position with regulatory, governance and institutional frameworks and the findings and recommendations of the Commission. This potential reform path is framed within the current policy directions of Victoria in creating a *Liveable Victoria*, *Liveable Melbourne* to "ensure a diversify water of resources are achieved through integrated water cycle management, to empower customers though choice and integrate urban planning with water planning in a way that allows all sources and uses of water to be considered".

Objectives

While, in theory, a singular efficiency objective may deliver the outcomes sought by governments, stakeholders and customers, an objective that is explicit in having a broader scope is preferred. For example, the current review by the Ministerial Advisory Council in Victoria is considering tripartite objectives of liveability, sustainability and productivity in order to ensure water services meet the needs of customers and communities. Similar objectives were developed by the broad stakeholder groups participating in the development of an integrated water management strategy for the South East of Melbourne.

This broader scope will ensure the need for efficiency in resource utilisation and allocation, public health and environmental health is achieved in a broader context of community well being.

South East Water suggests that the most appropriate model is for the Government to set these aspirational objectives, coupled to more specific outcomes such as efficiency, security of supply, affordability and sustainability. To support delivery, these objectives need to be both practicable and quantifiable. As noted above, in Victoria, the Ministerial Advisory Council is currently considering these issues.

Institutional design

Melbourne is currently well placed with established roles for government, regulators and water businesses. There is potential for benefits to be achieved through moving to a model that involves:

- Government setting objectives and the establishment of policy frameworks;
- The continuation of the horizontal and vertical separation business model;
- Retail / distribution businesses having the incentives to both manage the needs of customers with commercial risk;
- Retail / distribution businesses also undertaking both market based decisions and investment decisions (both supply side and demand side); and
- The bulk supplier, Melbourne Water, operating the system to release supplies to met needs of water businesses and large users.

If the supply system becomes more complex, there may also be benefits from an independent entity undertaking both market settlement (physical and financial) and providing the market with information about future augmentation needs and water values.

Future integrated water management models support a strong role for local government in the integration of urban planning with water cycle management.

Within Melbourne, local government have both urban planning and drainage functions. It is possible that efficiencies could be gained in Melbourne by horizontally separating the drainage functions of local government from the broader urban planning functions. The drainage functions could be incorporated into retail water businesses to enable more holistic consideration of water resource and water cycle outcomes and solutions. More work is required to determine whether these potential efficiencies would eventuate.

Governance

As noted in Chapter 3, there have been significant benefits from current governance arrangements involving corporation's law companies with skills based directors. The current model in Melbourne has ensured that the principles of independence, responsibility and accountability have created a positive environment for the delivery of agreed outcomes.

Planning framework

South East Water believes that there is a critical role for Government in establishing planning frameworks and service expectations, particularly with respect to security of service. For Melbourne, it is suggested that this would optimally involve:

- The continued use of water entitlements / rights allocated for all water sources;
- A water security framework that is adaptive and that will allow the delivery of the most efficient outcomes across the whole water cycle;
- The setting of security targets; and
- The establishment of robust investment evaluation and funding arrangements in order to ensure projects with multiple benefits to the community can be implemented.

In this model, water businesses would develop a range of strategies, including water supply demand strategies, to meet security targets in an open and transparent manner. This should occur every five years, in conjunction with rolling price review processes.

Our experience in developing an integrated water management strategy for Melbourne's south east has clearly highlighted the benefits of integration in planning between local government, planning agencies and water businesses. The strategic approach we have developed will assist the development of the 'right solutions for the right areas' and the delivery by the most appropriate agency in order to reflect a broader set of community outcomes. While the Commission recognises some of the barriers to integrated water management, South East Water believes these planning linkages are crucial and should be further considered in the final report. The high level planning function should rest with State Government or an independent authority.

To be effective, these planning activities need to be supported by decision making frameworks that include assessment of the externalities – positive and negative – for particular investment strategies. They also need to be supported by clear funding arrangements between beneficiaries. South East Water notes and supports the Commission's findings in this regard.

As outlined in the Ministerial Advisory Council road map, there is an important role for government to establish the incentives for this integration and collaboration to occur.

With respect to decision making, including for large scale augmentations, South East Water supports the adoption of real options as an effective management tool. This approach will also support any adaptive management as seasonal conditions are reviewed from time to time. That said, the role of government in this decision making process cannot be understated. In times of significant system stress, the delineation of roles and decision making cannot be rigid. The frameworks must therefore allow that flexibility to occur.

Competition

Experience in irrigation and rural communities has been that an effective water trading market will ensure that the needs of willing buyers can be met by willing sellers. Each participant in the market makes conscious decisions about the value of water to their undertakings. Rural urban water businesses have also found that participation in markets is effective to balance supply and demand in a cost effective manner.

The Melbourne supply system is managed like a “pool” with water businesses having the right to move their resources (specified in bulk water entitlements) through the network to meet the needs of their customers. Additional regional water businesses are also connecting to this pool in order to supplement supplies to their customers. Optimisation of the pool is currently managed via agreement between parties within the context of agreed operating constraints and scenario plans.

On the evidence found in the rural sector, markets can be an effective means to balance supply and demand. South East Water believes that as outlined by the Commission, it is worthwhile exploring the potential role of markets within large urban areas. The decision to proceed – in any form – should only occur if there is strong community engagement in considering that option and that there are net community benefits for that change.

An alternative approach to increasing the competitive environment is the establishment of a state based access regime. South East Water has supported access regimes in order to enhance the drivers to deliver efficient solutions to customers. In order to protect the customers of both incumbents and new entrants, there will need to be some caveats around such a regime.

In particular, there is a need for a level playing field between incumbents and new entrants particularly with respect to water quality, public health, asset standards and integrity, customer obligations, environmental obligations and pricing. As one example, the Australian water industry has worked with the various Government's to implement robust, best practice risk management frameworks that reflect the individual risks of water supply systems and focus on within process controls to ensure reliable water quality. However, these frameworks are dependent on industry commitment and capacity and may not be readily applicable to regulation of relatively small third party entrants.

Government will therefore need to establish a robust licensing and pricing framework in order to protect all parties. The framework will also need to address any ‘supplier of last resort’ issues.

Finally, to be effective, access seekers will need to have a water resource available, which may in certain circumstances be obtained from the market.

At this time it is not suggested that there will be value from retail competition between water businesses. However, as highlighted in the Ministerial Advisory Council roadmap, there may be value in considering new entrants providing both retail and distribution services to “inset” areas like new urban developments. In this case, businesses would need to clearly ring-fence the retail costs from the distribution and treatment functions.

Access is potentially applicable to both the water and sewerage networks and treatment.

Competition with respect to the provision of sewerage services and treatment is a possibility, particularly if incentives are in place that would allow a third party to offer treatment activities knowing it has a potential recycled water market available to it. South East Water would support the exploration of those options. Some concern, however, needs to be raised if there was to be competition for sewerage customers, in particular trade waste customers. Any future model for this element of the water sector must be cognisant of the potentially unique risks proposed by each customer to the integrity of the sewerage system, the treatment processes and treatment products (such as recycled water).

Large users

In today's framework, large users can be subject to different levels of service – effectively for the same water price. This is on the basis that some are subject to prohibitions in times of drought and others are not.

In order to increase the efficiency in resource utilisation by large users, there are a number of models including allocations, prices including scarcity tariffs and trading.

Each can be effective and given the demonstrated benefits of markets in rural Victoria and the expectations from third party access regimes, South East Water believes there is an opportunity to explore this range of options from a total community cost perspective. This analysis would need to be cognisant of the role markets might play in the supply demand balance for water businesses and any access regime.

It would be South East Water's preference that these issues be considered together to ensure a holistic and integrated solution is developed.

Economic regulation

Independent price regulation in Victoria has had a significant and positive impact on water businesses. By definition it has required entities like South East Water to clearly articulate the service it proposes to deliver, in consultation with customers and other regulators, the efficient means by which it will deliver those services, the revenue requirements needed to achieve those programs and finally tariff structures to recover those revenues. A fundamental requirement, however, is the clear delineation between government and businesses – as specified by Statements of Obligations – and government and regulator.

As a provider of monopoly services, the need for oversight is understood. However, as noted in Chapter 2, recent benchmarking demonstrates that South East Water provides a critical combination of relatively high service levels at relatively low cost in comparison with other similar sized Australian water utilities. The benefits of independent regulation in Melbourne appear to be diminishing and regulation may become more intrusive and burdensome over time.

It is South East Water's view that there may be benefits from price regulation in Melbourne moving to a light handed regulatory model in the short to medium term. However, the last 10 years has seen a number of stop start processes occurring and a degree of maturity still needs to evolve in order to move to the more light handed approach to regulation (such as adoption of a price surveillance role).

The adoption of a surveillance approach would in no way diminish the need for South East Water to develop its service proposition in consultation with customers and stakeholders. Indeed a less prescriptive regulatory environment may well realise significant benefit through innovation.

Environmental and health regulation

Government, and its health and environmental agencies, have a clear role in specifying outcomes in the public interest. South East Water notes and supports the Commission's views that this must be done in an open and robust process such that the costs to society are clearly assessed and understood before decisions are made. They must also be outcome focused and not prescriptive in how those outcomes are delivered. This will ensure that any unique attributes of a water business's area are able to be addressed and incorporated into the solution rather than a "one size fits all" approach to achieving the outcomes.

With the possibility of new entrants to the provision of water services, under a state based access regime for example, South East Water strongly supports the need that these new entrants achieve the same level of environmental and health requirements as incumbents. The drivers for this are twofold. Firstly, to ensure that new entrants do not get any price advantage from not meeting the same

standards and secondly, that the possibly of lesser quality water moving into an incumbents system is removed.

Access will only work if there is a level playing field and South East Water would only support if subject to appropriate licensing regime for new entrants.

Tariffs and choice

Tariffs form a very important role in ensuring water businesses can recover the revenues required to cover the costs of meeting the needs of customers, stakeholders and shareholder(s). Tariffs also have a range of other objectives which, in many cases, are not complimentary. These other objectives include economic efficiency; flexibility, ease of operation and administrative simplicity, transparency, and equity.

For their part water businesses have developed, evolved and changed tariffs over time with the ultimate goal of satisfying the relevant circumstances and objectives at that point in time. Today the outcomes include a two part tariff comprising a fixed charge (to ensure revenue adequacy) and a volumetric charge. The volumetric charge for South East Water comprises a flat volumetric tariff for non-residential customers and a three step inclining block tariff (IBT) for residential water customers. Sewerage tariffs are similar in structure with a fixed a variable component but predominately the variable is structured around a proportion of metered water volumes.

The long run marginal cost of water and sewerage services has guided the price levels embedded within those tariffs.

A key driver behind current tariff design is customers wishing to have control over their bill, by definition a greater reliance on variable tariffs than fixed tariffs, as well as some certainty in prices over time. This makes pricing at the short run marginal cost or scarcity pricing difficult to communicate and implement.

South East Water sees advantages in retaining postage stamp pricing but move away from IBTs to a flat volumetric tariff. However, this would need to be transitioned over time in order to ensure resultant customer impacts are managed and that any signalling that emanates from the higher third tier is not lost to customers.

South East Water does not see the benefits of universal application of scarcity tariffs in the short to medium term. There are a number of reasons including:

- The uncertainty it creates for customers with constantly changing tariffs;
- The administrative complexity involved in recovering excess revenues from reductions in fixed charges;
- The complicated communication messages that will be required; and
- The complexity in developing billing systems and possibly metering systems to support such a model.

Tariff / service choice is expected to become an important addition to the suite of services offered to customers. This direction is highlighted in the Ministerial Advisory Council roadmap and South East Water will undertake further engagement with customers and stakeholders regarding tariff reforms such as:

- Green tariffs (e.g. paying a premium to offset the energy used in delivering water to the customer);
- High security tariffs and or contracts for customers without allocations (e.g. for no restrictions); and
- Hardship tariffs (e.g. more frequent billing to manage affordability).

It is South East Water's view that choice in tariffs cannot occur until the fundamental building blocks of tariff design are in place.

The nexus between retail tariffs, new customer contributions and access pricing

Currently there is a nexus – albeit not necessarily clear in all jurisdictions – between retail tariffs and new customer contributions. There will be an emerging issue in ensuring that the nexus between third party access prices / tariffs is understood.

South East Water does not support geographic based tariffs in lieu of postage stamp pricing within Melbourne. This view is driven by a number of reasons including:

- Some customers locate in particular locations on the basis of political and planning decisions – not price;
- In integrated networks like Melbourne, augmentations like the desalination plant provide an overall security of supply for all customers. However, individual customers may receive water that will be dominated by a relatively cheap or expensive sources;
- Gravity and topography control which customers can be serviced by which sewerage treatment plant; and
- Transitioning to new location based tariffs would create “winners and losers” for no apparent reason.

Historically, this issue was addressed by geographically differentiated new customer contributions. Unfortunately, over time, the price regulator for Melbourne has determined a postage stamp set of charges that differentiate on property size, not location.

With respect to access pricing, South East Water has indicated previously its support for retail minus prices for access because of the postage stamp pricing. Any other model of pricing, like cost plus, will only lead to cherry picking, distort adaptive planning and will increase average prices to other customers, again for no apparent increase in service value to them.

With the 2013 price review process about to commence in Victoria, it will be South East Water's preference that postage stamp pricing will be retained, supported by cost reflective location based developer charges. We will also be advocating “retail – minus” pricing for any access regime.

Non price measures

Price alone cannot manage supply security and hence non price measures should be considered an integral component of the service offering of water businesses. To date, some activities have been driven by obligations on the water industry – such as a direction to undertake schools education programs, some by policy – such as a requirement to achieve per capita water efficiency targets, and some by regulation – customers must install dual flush toilets.

These activities have been integral components in achieving water savings and efficiencies in the recent period of water shortfall. While there has been recent recovery of storages, there should remain a strong case to continue some efficiency and behavioural change programs where:

- there is an appropriate business case to implement efficiency measures; and
- The community support water businesses offering non price measures to help customers managed their water use.

Ideally, the future will see South East Water delivering some non price measures and information, within a robust framework containing outcome focused obligations. For example, by having clearly set security objectives, South East Water is best placed to develop the suite of solutions that reflects its customer demographics, their demand requirements and the most appropriate and effective options available in our region.

5. Specific Recommendations

The following sections outline South East Water's specific responses to some of the key recommendations of the Commission.

Objectives, roles and responsibilities

<p>Chapter 4 — the role of governments</p> <p>DRAFT Finding 4.1</p> <p><i>It is the role of governments (elected representatives) to:</i></p> <ul style="list-style-type: none">• <i>Set objectives for policy development for urban water and relevant objectives for each agency</i>• <i>Develop policy frameworks and principles in relation to public health, the environment and service delivery that are consistent with these objectives</i>• <i>Define property rights to water</i>• <i>Put in place the appropriate institutional and governance arrangements</i>	<p><i>South East Water supports recommendation</i></p>
<p>DRAFT Recommendation 11.6</p> <p><i>Environmental and health regulators should be more transparent and accountable in their decision making. Except in matters where urgent public or environmental safety issues are involved regulators should also publish draft decisions and seek public comment on these. They should publish the reasons for their decisions in a similar manner to economic regulators and governments should consider the development of appropriate decision review mechanisms.</i></p>	<p><i>Support recommendation and that any obligations imposed need to be outcomes focused and developed in an open and transparent manner</i></p>

Price and non price measures to manage demand

<p>Chapter 7 — Pricing of water and wastewater</p> <p>Findings 7.1, 7.2, 7.3 and 7.4</p> <p>A number of findings have been listed in this section, summarised as follows:</p> <p>7.1 ...scarcity pricing of bulk water will lead to more efficient allocation of water resources and more efficient augmentation decisions</p> <p>7.2 ...appears scope for efficiency gains if developer charges reflect costs of service provision in new developments</p> <p>7.3 ...there are efficiency gains to be had by moving from inclining block tariff to flat volumetric retail pricing structure</p> <p>7.4 ...there is scope for moving to more location specific tariffs</p>	<p>The role of tariffs for water businesses is complex and there are many objectives – some contradictory – to be satisfied. The industry has landed in its current state driven principally by the extremes of the last 10 years. Tariff design therefore should be flexible and South East Water anticipates proposing a transition from an IBT to a flat volumetric water tariff and considering the benefits of choice in the longer term.</p> <p>A key issue for consideration - especially by regulators – will be the inter-relationship between retail tariffs, developer charges and access prices. If these aren't considered as a whole then perverse outcomes might evolve. For example if postage stamp pricing is retained and cost plus pricing for access established, then we will see cherry picking occurring and ultimately average prices increasing for remaining customers.</p> <p>From a simplicity perspective, South East Water is of the view that postage stamp pricing should remain, access prices should be retail minus and developer charges provide the signals of costs of development – by location. Finally it cannot be assumed that pricing alone will be the panacea to managing supply and demand. A suite of options must be available to water businesses.</p>
<p>Chapter 8 — Non-price demand management</p> <p>DRAFT Recommendation 8.1</p> <p>The use of water restrictions should be limited to times of emergency where a water shortage arises unexpectedly, or in regional urban areas where there are no viable new water sources available to augment supply and restrictions are needed to avoid running out of water. Consumers should instead be able to exercise choice in their water consumption behaviour through an efficient price mechanism.</p>	<p>With many supply systems heavily dependent on climate dependant supplies, it is difficult not to consider restrictions as part of the supply demand process. The extent of restrictions should be developed as part of the holistic analysis of options and the community benefits and costs. Practicalities would indicate that price cannot be the sole panacea to balancing supply and demand, at this stage in the industries evolution.</p>

Institutional Reform

<p>Chapter 11 — Institution-centred reform</p> <p>DRAFT Recommendation 11.1</p> <p>Retail–distribution utilities should be assigned responsibility for meeting security of supply standards and procuring water supply and services.</p>	<p>Support, but in the context of an engagement process to develop an agreed water supply demand strategy in consultation with customers, communities and stakeholders</p>
<p>Chapter 12 — Structural reform options large cities</p> <p>Information request</p> <p>Are any or all of these options feasible and cost effective for delivery of urban water supply, wastewater and stormwater services in Australia's large urban cities? If so, where? If not, why not? How could these options be improved?</p>	<p>Melbourne has demonstrated that there are clear benefits in adopting attributes from Option 4. Innovation and performance has been strong as evidenced by national benchmarking and reviews like VCEC (2008). The universal application however needs careful consideration across each jurisdiction. For example rural urban authorities like Barwon Water do not need horizontal separation of the retail distribution elements; however the interconnection with other supply networks reinforces the effectiveness of wholesale diversity.</p> <p>As supply systems become more complex, consideration will need to be given to the establishment of an independent organisation to balance supply and demand in the short term and provide information to market participants about future augmentation needs.</p>

Augmentation and decision making

<p>Chapter 6 — Supply of water, wastewater and stormwater services</p> <p>DRAFT Recommendation 6.1</p> <p>State and Territory Governments should adopt policy settings that allow the costs and benefits of all supply augmentation options to be considered using a real options (or adaptive management) approach.</p>	<p>Support the adoption of real options (RO) approach, however, managing supply / demand balance in an environment strongly impacted by climate variability, makes decision making complex – particularly so if RO adopted. It would be expected that RO will need to be supported by other decision making frameworks, including government involvement.</p>
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