



**Hon Rachel Nolan MP**  
Member for Ipswich



**Minister for Finance, Natural  
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Ref CTS 10450/11

**29 JUL 2011**

Ms Wendy Craik  
Commissioner  
Productivity Commission  
Locked Bag 2, Collins Street East  
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Dear Ms Craik

Thank you for the opportunity to comment on the Productivity Commission's Draft Report *Australia's Urban Water Sector*. This draft report provides a welcome opportunity for the states and the commonwealth to focus on some of the real challenges of providing a robust regulatory framework for the delivery of safe, reliable and affordable water services in Australia.

The Department of Environment and Resource Management has considered your report and I am pleased to provide the attached response on behalf of the Queensland Government. I look forward to receiving a copy of the final report.

Yours sincerely

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**SUBMISSION  
BY  
QUEENSLAND GOVERNMENT  
TO  
PRODUCTIVITY COMMISSION DRAFT REPORT:  
AUSTRALIA'S URBAN WATER SECTOR  
JULY 2011**

## Introduction

The Queensland Government welcomes the opportunity to provide a submission to the Australian Productivity Commission's Draft Report on Australia's Urban Water Sector. As the Productivity Commission would be aware, the Queensland Government, through the Department of Environment and Resource Management (DERM), provided a comprehensive response to the Commission's Issues Paper in November 2010.

It is noted that the Productivity Commission's Draft Report on Australia's Urban Water Sector report is one of several reviews that have been commissioned by Commonwealth agencies in recent months, including the Infrastructure Australia's Regional Towns Water Quality and Security Review (released October 2010) and several National Water Commission Reports on urban water reform and pricing (released in April 2011) all purporting to encourage State governments to review their institutional arrangements and to promote cost effective services offering more customer choice as well as encouraging innovation, efficient investment decisions and sustainable water use.

The Reports contain a number of common themes and recommendations relevant to urban water reform, particularly in respect to institutional reform of regional based water service providers.

While Queensland is not opposed to the majority of the recommendations in the Draft Report, it needs to be acknowledged that consideration of the recommendations will occur on a case-by-case basis taking into account individual jurisdictional circumstances. Accordingly, the Commonwealth needs to be aware that implementation of the proposed recommendations in a highly decentralised State such as Queensland would be costly. It would also involve substantial transitional work, as water supply is generally a responsibility of local government in this State.

As outlined in the Issues Paper submitted to the Commission by DERM in November 2010, Queensland, along with other jurisdictions, has undergone a great deal of reform in the urban water sector over the last 20 years with the primary driver being through the ongoing COAG and National Competition Policy agreements of the mid 1990s and the National Water Initiative in 2004.

In addition to these national drivers, Queensland has continued to review its urban water sector through improving the regulation of the water and sewerage sector with the objective of achieving secure, safe and sustainable water supply for all Queensland communities. However, there are still important issues to be addressed and Queensland is examining ways to address these challenges including those identified in this Draft Report.

It should be noted that the Queensland Government still considers its original submission to the Commission on the Issues Paper remain valid and as such has focussed its comments to address each chapter, but will provide specific comments on particular recommendations or findings where considered necessary.

## **Specific Matters for Response**

### **Chapter 5 – Improving the regulation of the Urban Water Sector**

Queensland is generally in support of the principles outlined in the findings and recommendations in this Chapter.

The Queensland Government considers that regulators have an important role in balancing economic and social parameters. While regulators clearly have a responsibility to support the efficient delivery of services, they have for many years considered and made decisions which, as far as possible avoid price shocks to customers. These approaches have included, amongst other things, price paths/price smoothing.

### **Chapter 6 – Supply of Water, Wastewater and Stormwater services**

As outlined in the submission to the Issues Paper, Queensland has a comprehensive water supply planning framework which includes water resource planning, issuing of secure water entitlements, preparation of regional water supply strategies, and facilitation of major infrastructure projects, particularly with respect to bulk supply sources.

In South East Queensland (SEQ), the Queensland Water Commission (QWC) is responsible for the oversight and implementation of the SEQ Water Strategy which provides the basis for water security in SEQ and the operation of the SEQ Water Grid.

Purified recycled water (PRW) is an integral part of the SEQ Water Strategy. The Western Corridor Recycled Water Scheme provides security of supply as a standby facility. This means that existing sources can be more effectively utilised because in times when dam levels are low, purified recycled water will be available to supplement our dams – ensuring that security of the region's water supply can be maintained. PRW is currently delivered to power stations and industries.

PRW is a permanent part of a long term plan to cope with climate change and population growth by reducing our reliance on rainfall. It will be introduced into South East Queensland's drinking water supply when SEQ's combined dam levels reach the 40% trigger level.

Outside SEQ the Queensland approach to long-term regional water security to date has been development of non-binding, non-statutory regional water supply strategies which provide a framework for meeting future water needs for the next 50 years. The Strategies provide the blueprint for cost effective water supply security for Queensland regional communities as well as supporting the implementation of water resource plans which define environmental flow requirements and the establishment of secure water entitlements.

Queensland has no objections to allowing free rural-urban trade, however, water trading needs to be supported by hydrological and ecological analysis which shows that not only is the volume of supply increased but also security of environmental flow and water supply objectives met.

The appropriateness of subsidies needs to be considered on a case by case basis, balancing economic and other social policy outcomes being sought.

Until July 2009, the Queensland Government provided assistance to local governments through a number of programs designed to improve the efficiency and effectiveness of their water infrastructure and to develop other water supply options, where appropriate. A smaller more targeted subsidy scheme, the Local Government Grants and Subsidies Program will commence on 1 July 2011. This Program will provide \$45 million each year in support of capital works such as sewerage treatment plant upgrades, water pipelines and erosion management, all of which contribute to significant long term community and environmental benefits.

The program is limited only to those councils in Queensland that demonstrate a limited capacity to fund major infrastructure in their communities.

## **Chapter 7 – Pricing of Water and Wastewater**

The Queensland Government does not support the implementation of scarcity pricing at this stage. The Queensland Government has invested significant capital in water infrastructure to augment water supply and it is unlikely that there would be water scarcity in the near future. Further, prices are moving to cost reflectivity to recover the investment in the new infrastructure. One of the objectives of scarcity pricing is to reduce demand during low storage levels. During the recent severe drought, non-demand measures have been effective in sending the right signals for water conservation and reducing the demand. While recognising that there are costs associated with the implementation of water restrictions and conservation measures, Queensland believes that benefits of implementing these measures outweigh costs.

Extensive further work would be required in a number of areas including the efficacy of scarcity pricing in influencing demand, impact on customers, implementation issues, demand elasticity for water, impact on the revenue of service providers, and the assessment of various options before the scarcity pricing options can be considered.

At this stage, a suite of reforms that complement each other are required to meet the future challenges which focus on both demand and supply options in planning for the future.

This issue has been considered by the Queensland Competition Authority (QCA). Specifically, QCA was tasked in 2009 with the review of pricing for the Gladstone Area Water Board (GAWB). In so doing, it considered the possibility of introducing scarcity pricing of GAWB's supply. It was concluded by the QCA that this may be of use, however as a complement rather than as a replacement to traditional supply restriction techniques. This decision was taken in light of the particular reliance of GAWB's customers (large processing plants) on a reliable water supply and as such it was recommended that the decision to introduce scarcity pricing be considered again in the future.

Sub-metering of all new multi-unit residential and non-residential developments is required under the *Queensland Plumbing and Wastewater Code*. However, there is a need to consider the cost-effectiveness of this proposal in relation to retro-fitting. Cost/benefit analysis would need to be undertaken in relation to each specific region and/or circumstances.

Developer charges represent one element of the revenue stream available to water authorities to pay for the provision of water and sewerage infrastructure and related services. In 2010, the Infrastructure Charges Taskforce was set up to examine the current regime under which local councils charge developers to offset water, road and other infrastructure costs when new dwellings are built. The reforms recommended in the Taskforce's Final Report have been translated into new legislation entitled the *Sustainable Planning (Housing Affordability and Infrastructure Charges Reform) Act 2011* which provides an infrastructure charging framework that delivers more certainty, transparency and accountability and equity to such charges.

The Productivity Commission's view that affordability is best dealt with through the tax and transfer system is the first best approach to managing affordability issues. However, given the

current roles and responsibilities across the levels of government in Australia it may not be the most effective approach. That is, the taxation/transfer system is largely a responsibility of Federal Government and whereas water and wastewater pricing policies are a responsibility of state and local governments. Therefore, the transfer system may not be able to facilitate targeted policy outcomes in relation to water supply sought at a State or regional level.

## **Chapter 8 – Non-Price Demand Management**

The use of water restrictions may help reduce need for supply augmentation in the future and may be a more cost-effective option and, therefore, negate need for increases in water prices in the longer term. Any decision on water restrictions needs to be considered on a case by case basis, dependant on circumstances.

In Queensland there is the public acceptability of restrictions versus water price increases. The experience in SEQ demonstrates that there may be a need for restrictions while prices are transitioning towards full cost recovery. Water conservation measures are in place in Townsville, Toowoomba and Gladstone, for example. Rockhampton has lifted its water restrictions, concluding that it will not lead to wastage.

As indicated in the Submission to the Commission's Issues Paper (see s4.2), the use of restrictions have been utilised in response to critical water supply issues as occurred in SEQ during the Millennium Drought. The response by the community was highly successful and integral to the drought response as a well as wide range of other demand management activities and programs which assisted in changing community behaviour and attitudes to water use efficiency.

It is considered that the judicious use of water restrictions is a practical and measured response in dealing with water supply problems. Restrictions are used as part of a mix of measures which can assist in deferring new water supply infrastructure expenditure.

It is unclear how the costs attributed to water restrictions have been calculated and need to be clarified, particularly when balanced with the view of costs associated with running out of water and resorting to costly alternatives such as carting of bulk water or infrastructure solutions. The anecdotal social based evidence provided on costs to households in respect to restrictions is not persuasive enough and somewhat dated (2007 and 2008).

Queensland supports the mandated use of water use efficiency and conservation activities and has introduced a range of demand management measures which are embedded in legislation to ensure the sustainable and efficient use of water (See DERM's submission to the Productivity Commission's Issues Paper).

## **Chapter 9 – Achieving Affordability and Consumer Protection Objectives**

The Queensland Government is very concerned about the increasing costs of living and the pressure this is placing on low income Queenslanders.

The Queensland Government provides a range of pensioner rebate and concession arrangements for water, electricity, gas, local government rates and public transport. The cost of pensioner and medical needs related concessions in 2011-12 is estimated to be around \$230 million.

The Queensland Government agrees that the most efficient means of addressing cost of living pressures for pensioners and low income earners is through the tax and transfer system. However, practically the provision of concessions to vulnerable Queenslanders is the most effective tool available to the State Government and local governments to provide assistance to those in need.

The Queensland Government's SEQ water rebate (and for that matter energy and gas rebates) is a fixed amount, and does not vary with consumption – providing assistance without changing behaviours.

The Queensland Government notes the significant challenge in striking the appropriate balance between the Commonwealth tax and transfer systems and State and local government concessions. The Queensland Government does not underestimate the potential size and complexity that a COAG review would need to consider to strike an appropriate balance to provide assistance measures given the various roles and responsibilities of the Federal, State and local governments for tax/transfers, utility pricing and concessions.

In terms of providing consumer protections, the Queensland Government recently introduced measures to provide better consumer protection through the establishment of the Energy and Water Ombudsman in SEQ.

In respect to the COAG led implementation of measures to support consumer advocacy and research as per the Productivity Commission's 2008 Review of Australia's Consumer Policy Framework, it is pointed out that the recommendations suggested that the Commonwealth take the lead role in developing arrangements for public funding.

## **Chapter 10 – Framework for Reform**

No comment.

## **Chapter 11 - Institutional-centred Reform**

The report acknowledges this is not the model adopted in SEQ. It is difficult to understand how this would work effectively in some instances where broader regional decisions need to be made regarding infrastructure augmentation. Specific local versus regional issues need to be considered on a case by case basis in determining an appropriate approach.

Queensland has already established instruments and governance arrangements to achieve many of these aims of the proposed Charters and is open to continued improvement in these matters through regular reviews and assessments.

Queensland is of the view that assigning the water planning augmentation role to distributors-retailers will lead to a fragmented approach leading to increased costs and compromising water security.

Queensland's approach to economic regulation in the water sector with regard to pricing includes monopoly pricing oversight by the Queensland Competition Authority (QCA) under the *Queensland Competition Authority Act 1997* (QCA Act).

There are clear advantages in maintaining a price monitoring regime in specific circumstances and Queensland will maintain a price monitoring approach in SEQ for the SEQ Distributor - retailers.

The establishment of an independent monitoring role will provide transparency and ensure consistency of prices with efficient delivery of services and expenditure. A full review of the monitoring role is an expensive and time consuming exercise. If it can be demonstrated that the monitoring decisions are clear and transparent and have not resulted in any abuse of the monopoly power, a full five year review may not be necessary.

The Queensland Government has placed a short-term price cap on distribution and retail annual water and sewerage price increases to be set at CPI for two years in response to significant price shocks to consumers by the SEQ Distribution Retail entities.

This decision has been made within the parameters of the National Water Initiative Framework, which provides that the NWI Pricing Principles are not intended to limit governments' discretion to address equity issues including that of affordability in the provision of water services. Queensland, along with the other jurisdictions, endorsed the NWI Pricing Principles in 2009.

## **Chapter 12 – Structural Options for Urban Water Supply in Cities**

The issues raised in this Chapter have been extensively covered in DERM's submission to the Commission's Issues Paper.

## **Chapter 13 – Reform in Regional Areas**

While Queensland is generally supportive of the recommendations made in this Chapter, Queensland's preferred approach to such reform is through consensus rather than direction. Aggregation of water utilities may not achieve significant benefits in some regional and geographically-dispersed areas.

The recommendations lack recognition of the challenges for small remote communities and does not recognise that there has been extensive local government amalgamations in the last twelve to eighteen months and institutional reform in South East Queensland. (see submission by DERM to the Productivity Commission's Issues Paper).

Given that many of Queensland water service providers supply water to populations of less than 2000 people; this may seem to support the argument of amalgamation to provide economies of scale. However, the situation in Queensland makes further amalgamation difficult, for example there are no other water service providers within 200 kilometres of Boulia, and an amalgamation would serve no purpose, as the infrastructure, by nature, needs to be community based. This is not an isolated instance, as the same argument could be given for at least 30 other communities that geographically cover over 50% of the land area of Queensland.

By simply amalgamating already challenged water service providers into larger organisations will not manage the tyrannies of distance, the lack of financial capacity, the isolation or the lack of any career path for water managers in regional and remote areas.

## **Chapter 14 – Implementing Reform and Monitoring Progress**

Queensland would need to determine the appropriateness of each proposed reform to its circumstances and identify its own priorities/timelines in relation to any recommendation to be implemented.

In many cases, timelines proposed by Productivity Commission would be very difficult to achieve even if the States supported the proposed reforms. Implementation of the proposed recommendations in a highly decentralised State would be costly and there are no guarantees that the economies of scale stated will occur. It would involve substantial transitional work, as water supply is generally a responsibility of local government in Queensland.

COAG may be an appropriate forum for further discussion between the States and Federal Government re some of the specific recommendations but any binding inter-governmental agreement regarding priorities and timelines may not be appropriate.