

Our ref: A4712213

Productivity Commission  
4 National Circuit  
Barton ACT 2600  
*Via On-line Submission*

19 October 2017

Dear Commission

### **Submissions on National Water Reform – Productivity Commission Draft Report**

Unitywater is pleased to provide a submission commenting on the Commission's Draft Report on national water reform. This submission directly addresses the Draft Report findings and recommendations.

#### **Draft Recommendation 6.1**

Unitywater does **not** support draft recommendation 6.1 which states that **State Governments should ensure that independent price regulation should be extended to retailer-distributors in south-east Queensland and establishing a standing reference for the Queensland Competition Authority to set or review prices nor its assertion that such independent scrutiny should promote increased efficiency in water services provided by these entities.** Unitywater's view is that economic regulation is not necessarily the only mechanism to hold water utilities to account as SEQ's current ownership model for water utilities has been effective in ensuring the retailer-distributors manage price.

SEQ's unique ownership model through the local governments has created a tighter connection between the water utilities owner's representatives, being local councillors, and end use customers. Customers have the ability to directly lobby their local Councillor about water related issues and where issues are significant such as large price increases, a larger contingent of owner's representatives are incentivised to deliver solutions to customers. This differs to ownership structures of other regulated utilities where owner's representatives are often limited to a small number of government Ministers as shareholders who don't have direct and a more personal relationship with the broad customer base as local councillors do.

This unique model has led to a form of customer regulation which is intrinsically linked to pricing and service outcomes for customers as opposed to economic regulatory frameworks that are focused on intensive reviews of cost inputs rather than price outputs.

In 2010-11 when Allconnex increased prices in line with its allowable revenue the price, being an outcome of the regulatory process, resulted in customer backlash and the ultimate abandonment of the model demonstrating that economic regulation in its own right is not the answer.

Of note, in 2011 the QLD government issued the Fairer Water prices Bill which capped price increases to customers. This was despite regulatory oversight by the QCA. This example of government intervention highlights that the overarching issue for customers was price increases even if they were supported by prudent and efficient operating costs.

More recently performance of SEQ retailer-distributors shows that SEQ providers are consistently delivering reductions to their cost base despite a lack of regulatory oversight. Evidence shows that with no independent review SEQ providers have reported the lowest cost increases other than one regulated entity.

Since 2011-12 Unitywater's operating costs have increased by \$81M of which \$79 million relates to bulk water cost increases from the regulated bulk water provider. Throughout this period Unitywater has continued to focus on innovation within its core business to reduce costs to minimise price increases while maintaining returns to owners. Unitywater has focused on a revenue model with key criteria to determine the minimum revenue requirement rather than the maximum. Key criteria has focused on pricing outcomes (such as price freezes), maintaining returns to owners and meeting minimum credit metrics to remain financially sustainable. This criteria has been agreed with Unitywater's owners – Participating Councils with a view to achieving a balanced outcome between ownership returns and price to customer.

This model has led to significant savings being delivered but also more importantly driven a focus on innovation with outcomes in relation to customer price, front of mind in all decision making.

Unitywater strongly suggests that consideration should be given to an alternate model to align the interests of customers and those who represent owners and consider an outcome based model rather than one focused on scrutiny of inputs.

### **Draft Finding 6.3**

With reference to the draft finding 6.3 Unitywater's experience has demonstrated that benefits of integrated water cycle management (IWCM) projects do indeed extend beyond one single beneficiary. Unitywater agrees with and supports those findings and endorses proposals to remove barriers to further develop IWCM.

### **Draft Recommendation 6.4**

With reference to the draft recommendation 6.4 Unitywater supports the four priorities and requests that the Commission add that the ability to trade both nutrients and sediments within catchments as complementary to these priorities and that they be included within the definition of IWCM.



### **Draft Finding 6.5**

With reference to draft finding 6.5 Unitywater agrees with the Commission's findings and has demonstrated the use of collective mass load regulatory management across catchments, has enabled efficient financial and environmental outcomes.

### **Draft Recommendation 6.5**

With reference to the draft recommendation 6.5 Unitywater supports the priorities, especially 6.5.a. requiring regulatory regimes to be outcomes focussed.

Should you wish to discuss Unitywater's submission, please contact Christina Fox, Senior Lawyer

Yours sincerely

George Theo  
**Chief Executive Officer**