

AUSTRALIAN WATER

ASSOCIATION

Australian Water Association Submission to Productivity Commission on Water Reform

ADDENDUM 1, 28 November 2017

The Australian Water Association wishes to submit an addendum to its submission to the Productivity Commission, following further consultation with its members.

ACHIEVING GREATER WATER EFFICIENCY

The Association, and its members, are of the view that to achieve efficient and effective service delivery in the urban water sector, a holistic assessment of integrated water cycle management needs to be considered as this will enable the delivery of more reliable and efficient water services into the future.

The underlying principles of integrated water management have a strong focus towards achieving greater water efficiency. These include:

- Efficient use of all and diversified water sources
- Efficient management outcomes in the design, build and operation of water infrastructure
- Incentivising investment in water efficiency appliances and water systems

The Association believes that water efficiency remains a key contribution to the management of water demand and consumption of water within the community and therefore it must be considered holistically in planning frameworks. In particular, The Association believes:

1. Commonwealth should 'incentivise' the states through fiscal measure to ensure better implementation of holistic Integrated Water Cycle Management
2. States should be required to amend statutory planning regimes to ensure that Integrated Water Cycle Management is a requirement for all developments of over a specified threshold

The Association submission, similar to the productivity commission's draft report has focused on economic efficiency to date however, has failed

to pick up on the role of water efficiency in driving economic reform, in particular focusing on:

- Supply-side management of water systems remains the prevalent approach to the detriment of cost efficiency
- Planning agencies (e.g. state and regional land planning bodies and councils) frequently ignore stormwater, water and sewer provision in strategic planning
- High fixed charges for water services has a triple impact - it reduces community incentives to be water efficient, it falsely makes alternative water sources and efficiency less competitive and encourages complacency by water utility providers
- Building an understanding of the potential for urban water use efficiency to impact network efficiency and optimisation (and associated relative costs)
- Understanding the broader impacts and future risks associated with current water utility pricing models based around increasing fixed charges
- Transparent cost impact assessment of supply-side 'drought-proofing' infrastructure solutions
- Addressing institutional impediments to cooperation of state-owned and local government-owned water suppliers
- Understanding changing water needs in response to urban consolidation and climate change accounting for livability targets for greenspace, flood risk, groundwater, ecosystems and energy

The Association believes there needs to be better planning of urban water supply augmentation including strategic planning to anticipate increases in demand.

CONSISTENCY OF INVESTMENT IN RESEARCH & DEVELOPMENT AND CAPACITY BUILDING

The Association also wishes to highlight the importance of Research & Development (R&D) across The Australian water sector and the need to secure consistent levels of funding.

The Association's submission under section 5.2 states:

"Greater national collaboration and coordination in areas such as regulatory alignment, R&D coordination, guidelines, industry certification and training and system validation has also been found to have significant potential to increase efficiencies across not only the urban water sector but other sectors contributing to livable and sustainable cities."

While Research & Development should be considered as part of a nationally coordinated water reform agenda the Association believes that the benefits of water R&D should not be underestimated. In the urban water domain alone, current R&D expenditure has reduced from 0.5% of water utility revenue in 2010 to 0.2% of water utility revenue in 2015, in spite of \$170M of research funding producing \$1420M of benefits (using Commonwealth CRC model), with a benefit cost ratio of 7.9. Benchmarking studies suggest the optimal level of investment in R&D is 1.0 to 1.2% of industry revenue.

Where the Association has mentioned the value of the National Water Authority to undertake national facilitation and knowledge sharing across the sector on barriers to reform implementation, this would require greater levels of coordinated research not just in regulation but also in skills, science and technology (e.g. water recycling) to enhance the value of our Research & Development platforms. Where these knowledge gaps or barriers are found it should be within the Authority's best interests to issue competitive Research Grants to allow for knowledge sharing.

The Association is of the view that in order to place Research & Development on a national agenda, there is a requirement for a national funding formula that supports, on a consistent basis, research and capacity building in water science, policy, and management. There is an urgent need for the formation of a water R&D fund, under the National Water Authority, with co-investment by industry. The Association sees the development of a national water R&D funding formula as part of the negotiations between the Commonwealth and the States and Territories that we have advocated to create a National Water Plan. By ensuring adequate funding for water **R & D** Australia can maintain its reputation as a world leader in sustainable water management, avoid shocks, improve integration and efficiency, and reduce overall water costs to customers and rate payers.

