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National Water Reform 2020
Productivity Commission
Collin St East
MELBOURNE VIC 8003

BY EMAIL: water.reform.2020@pc.gov.au

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Dear Commissioner

National Water Reform – Response to Draft Report of Productivity Commission

We appreciate the opportunity to provide submissions on the Draft Report on National Water Reform to supplement our original submission of 20 August 2020.

Northern SEQ Retailer Distributor Authority, trading as Unitywater has participated in the review by Water Services Association Australia. In addition, Unitywater makes the following submission on matters more specific to our stakeholders.

Support for the general approach

Unitywater wishes to express its strong support for the findings of the Productivity Commission in the Draft Report calling for:

- Management effort and regulation to be fit for purpose;
- Encouragement for innovation and continuous improvement;
- A commitment to communication with the community;
- Steps to be taken to develop/enhance water literacy;
- Considering all sources of water for potential supply to urban water demand;
- Stronger capacity to adapt to climate change and a more rigorous approach to preparing for drought;
- A commitment to rebalancing environmental needs with consumption demand;

- Acknowledgement of indigenous water rights and culture; and
- A closer alignment of water regulation with land planning regulation.

Additional Submission Regulatory Coordination

Unitywater is particularly heartened by the focus in the Draft Report on total water cycle management and proposed uniform language use amongst regulators to improve consistent development in this area.

The inconsistency in regulatory requirements within a State is hampering opportunities to maximise our water resources, especially in connection with recycled water.

Unitywater proposes a consistent adoption of the policy that:

- potable water must achieve certain specifications; and
- water from any sources which achieves those specifications is approved for potable use.

Unitywater submits that sustainability principles should be embedded in the planning and building code requirements for new developments, Unitywater proposes that water sustainability should be specified in the building codes and the planning laws for all land development. In Queensland, there is currently an absence of water planning requirements in the *State Infrastructure Strategy and Regional Infrastructure Plan*.

Whilst we note the Draft Report proposes the creation of a national water reform body, we submit that this needs to also be reflected in State laws, as water is a State Government resource.

Additional Submission Regulatory Reporting and Assurance

The Draft Report calls for tighter regulation to hold water system managers to account through:

- (a) Governance arrangements to be extended; and
- (b) Publishing additional information and public records of how decisions are made and justifications for those decisions.

The Draft Report requires a risk-based approach to developing and maintaining information and data collection, necessary for the effective water system management, which is to be

publicly available and accessible. Further, the Draft Report proposes an assurance process. All decisions of the water system manager are to be transparent.

During a webinar presentation, the Commissioner explained that additional formal economic regulation is required for larger urban utilities, but a lighter touch may be applicable to regional councils. Water authorities would need to make their own submissions to the regulator, justifying the cost benefit of a lower governance/accountability model. The Commissioner said that, it is not the size of the water authority which should be taken into account in allowing reduced reporting requirements, but rather the argument put forward by the water authority to demonstrate the overwhelming benefits, on a cost benefit basis.

Unitywater submits:

- Water is a State resource and must be protected across each State including in local government jurisdictions with equal priority to urban areas. The same principles should apply to both large and small water authorities.
- Water authorities in Queensland already have significant governance requirements and controls around their systems. They are already subject to an assurance process both through internal and external audits by Queensland Audit Office.
- In Queensland, water authorities already publish extremely detailed five-year Netserv Plans which anticipate future water demand and availability. This, together with the statutory reports tabled in Parliament, already provides a high level of transparency and accountability.
- We submit that additional regularly requirements for Queensland water authorities will result in an administrative burden, which is unlikely to achieve a material benefit for the community and is unlikely to have a costs benefit. The focus should be on effective delivery of water services.
- Unitywater submits that focusing on water efficiency and fit-for-purpose management is not consistent with the proposed additional layers of regulatory requirements.
- If the Commission pursue this legislative reform, Unitywater submits that there should be a clear process included in the legislation to allow a water authority to obtain exemption from complying with these additional requirements on a costs-benefits basis.

Structural models – Economic Regulation

Unitywater submits that non-economic regulation has proven to be very effective and should be considered for a broader model. Consistency of standards and transparency can be achieved without economic regulation.

Unitywater's current ownership model for water utilities has been an effective model for ensuring efficient pricing and investment decisions are made with customer outcomes in mind.

Unitywater's unique ownership model through three (3) local governments has created a tighter connection between the water utilities owners' 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, or poor service outcomes, a larger contingent of owners' representatives are incentivised to deliver solutions to customers. This differs to ownership structures of other regulated utilities, where owners' representatives are often a Shareholder Minister.

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.

Recently, performance of the South East Queensland retailer-distributors shows that South East Queensland providers are consistently delivering reductions to their cost base despite a lack of regulatory oversight. Peer review evidence shows that with no independent review South East Queensland providers have reported the lowest cost increases other than one regulated entity. This model has led to significant savings being delivered, but also more importantly, driven a focus on innovation in investments with outcomes in relation to customer price being front-of-mind in all decision making.

Unitywater's track record demonstrates that community engagement and customer requirements can be achieved without economic regulation.

More detailed submissions were provided in our 20 August 2020 submissions.

Unitywater strongly suggests that consideration should be given to leveraging the South East Queensland 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.

Closing

In closing, Unitywater supports the Draft Report and proposes some additional considerations, particularly in relation to:

- Coordinating the different regulators;
- Facilitating total water cycle management;
- Not creating additional regulatory burden without a cost benefit justification; and
- Considering the benefits on non-economically regulated water authorities.