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National Water Reform 2020
Productivity Commission
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Dear Commissioner

National Water Reform - Productivity Commission Issues Paper

We appreciate the opportunity to provide submissions in response to the issues paper on National Water Reform dated May 2020.

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

INFORMATION REQUEST 4

What steps have been taken or should be undertaken to plan for long term changes in climate?

Unitywater does not agree that water markets and removing the barrier to water trading will materially improve water security and deliver overall better community outcomes. The most pressing need is for water security on an affordable, reliable and sustainable basis. Competitive tension for water resources may disincentivise cooperation and collaboration to improve water security and equitable access.

Instead, we submit the focus should be on maximising the water resources currently available to maximise community outcomes. Unitywater supports all sources of water being considered for possible potable water supply or substitution, subject to health, safety, environment and social considerations. Considering all water sources to meet current and future demand is necessary in order to mitigate increased pressure on our water resources through climate change, a growing population and industry requirements.

Currently, jurisdictions have differing approaches, and some potential water sources, such as recycled water and harvested storm water are treated with differing levels of regulatory

complexity and political acceptance making it difficult to include as a possible potable water source.

Unitywater submits that the quality of the water should determine whether it is potable, not the source or the history of the water.

Secondly, Unitywater submits that policy should favour a consideration of all applicable water sources in federal, state and regional planning, including land use planning to maximise water resources. An important change would be to include water utilities in the very early stages of regional planning processes at the State and at the local Council level.

Thirdly, Unitywater submits, an increased and an improved involvement of customers and the community on a national level will be necessary to face water security challenges going forward.

Low levels of water education across Australia complicates the resolution of ongoing issues facing the water industry, such as drought management. Addressing overall water education in children and adults requires a joint approach by local, state and national authorities.

Targeted behaviour change programs may be required to expedite sustainable change in generations with long standing low water literacy, especially in the urban sector. A national focus on education would help to achieve this.

Consumer sentiment and customer feedback are important considerations in any programs where customers are paying for the service. It is important that any pricing approach to water initiatives meets not only the technical and supply issues, but does so in a way that customers understand, appreciate and value.

INFORMATION REQUEST 4

What lessons have been learned through recent extreme events (bushfires and COVID-19) provided for planning?

Unitywater's recent experience of bush fires and now COVID-19, while devastating for the communities involved, has resulted in some extremely positive and successful outcomes. Despite the adversity, there has been no disruption to water and sewage services or to health and safety requirements in Unitywater's region.

For planning purposes, lessons learned could include the benefits of decentralisation of essential service functions to improve business continuity if one site or facility is compromised.

Affording financial leniency through altered payment times for customers and suppliers during COVID-19, has assisted vulnerable customers and businesses to meet their commitments without materially impacting the cost of supply of water and sewage services.

Collaboration and co-operation between water utilities, fire and rescue services and local councils was essential to minimise bush fire damage to homes and water infrastructure. Unitywater monitored the event and its assets through its various systems, was able to communicate warnings in real time to maximise safety of our workers. A stand-alone incident management team worked effectively to ensure continuity of water services whilst maintaining safety.

INFORMATION REQUEST 5

How could the NWI be amended to support best practice monitoring and compliance

One area for best practice is water leak monitoring and management. While some urban water utilities manage non-revenue water (leakage) well, it remains a real challenge across the Country.

Unitywater uses leading edge technology and software which has significantly improved its monitoring and response to leaks (especially hidden leaks that don't come to surface). Unitywater and other water service providers who have access to leading edge water leak technology and software could provide access to this technology / software as a service. It may require incentives through the NWI to encourage the smaller water utilities to partner with the larger utilities.

There is already a direct financial incentive to water service providers of all sizes to minimise the amount of water lost through leaks, however this is not always enough to motivate action in leak reduction initiatives. A requirement through the NWI to achieve a water saving outcome by reduced leakage targets may be required to drive this outcome.

A second area for support is in training.

Availability of skilled water workers is a national issue for water utilities. The NWI could significantly assist this by instigating a national training program focusing on outdoor water and sewage workers including trainees, unskilled and non-professionals. This could assist regional and remote areas and enhance diversity of workforce and grow local capability where individuals see themselves as having a career in the water sector.

INFORMATION REQUEST 8

Are the institutional arrangements for metropolitan water service providers fit-for purpose? Is there evidence of inefficient pricing or investment decisions?

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

Unitywater's ownership model through three 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 or poor service outcomes, 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 the Ministers as shareholder.

Unitywater's model has intrinsically linked 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 comparison evidence shows that with no independent review, South East Queensland providers have reported the lowest cost increases other than one regulated entity.

Since June 2010, when Unitywater first commenced operations, through to June 2019, Unitywater's operating costs increased by \$131M of which \$121M 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 improving overall asset performance and 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 have focused on pricing outcomes (such as price freezes to all or some tariffs), maintaining returns to owners and meeting minimum credit metrics to remain financially sustainable. These criteria have been agreed with Unitywater's owners 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 in investments with outcomes in relation to customer price, front of mind in all decision making.

Over the same period from 2010-11 to 2019-20 the annual growth in Unitywater's component of the bill increased by 1.8% per annum for Sunshine Coast residents and 0.9% per annum for Moreton Bay residents. Over the same period the regulated bulk water price increased by 12.7% and 7.4% respectively per annum.

These outcomes have been delivered while ensuring long term financial sustainability with key metrics either at or exceeding those of other regulated utilities without compromising service to customers.

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.

INFORMATION REQUEST 9

How can small regional providers best balance affordability with longer-term service quality? Are there barriers to effective local planning?

Is there scope for great collaboration between small providers? When might government support be warranted, and how should it be provided?

A national approach would favour the objective of parity of essential service levels to all Australians.

Larger or specialised water utilities are able to support small regional Councils particularly in relation to water loss management, water quality management and delivery of key infrastructure to assist enhanced levels of service in the smaller regional areas.

However, a variety of barriers exist due to the many and varied stakeholders and lack of incentives to take advantage of expertise and capacity available within larger or specialist water utilities. Incentives for State Governments, Local Councils and larger or specialist water utilities may be necessary to overcome these barriers. This objective could be assisted by regulatory alignment addressing the balance between economic, environmental and social consideration.

In closing, a significant opportunity exists to measure the success of the NWI by implementing objectives to deliver customer, environmental and regulatory benefits and where water service providers are financially rewarded once these benefits are delivered.