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National Water Reform: Draft Report

Melbourne Water appreciates the opportunity to make a submission in response to the National Water Reform: Productivity Commission Draft Report (the Draft Report).

Many of the report's recommendations are consistent with the priorities and reforms already underway at Melbourne Water and articulated in the Victorian Government's State Water Plan, Water for Victoria (2017). Increasing Aboriginal participation in water management, flexible and adaptive planning and greater use of integrated water cycle management (IWCM) exemplify Melbourne Water's commitment to supporting Water for Victoria.

The three key challenges facing Australia's water sector identified in the Draft Report are highly relevant to our operating area, the Port Phillip and Westernport region (the Region). 'Population growth and urbanisation, climate change and changing customer expectations'¹ are three critical characteristics which impact our decisions and provide a useful framework to guide future policy effort within all levels of Government.

Melbourne Water is also supportive of an approach which simultaneously 'maintains the water sector's key foundations' and 'enhances policy settings for urban water, environmental management and new infrastructure investment.'²

Further commentary is provided below outlining Melbourne Water's detailed views in response to the Draft Report taking into account Water for Victoria and the United Nations Sustainable Development Goals (UN SDGs).

¹ Productivity Commission, *National Water Reform – Draft Report* (2017), pg. 12

² Productivity Commission, pg. 13



Melbourne Water's role

Melbourne Water manages water supply catchments, treats and supplies drinking and recycled water and removes and treats most of Melbourne's sewage. We also manage waterways and major drainage systems throughout the Region. Spanning the full spectrum of water, wastewater and drainage services, we are uniquely positioned to extract the maximum value from water through the entire the water cycle.

Like most Australian States, Victorian water corporations have a broad role of managing water to achieve sustainable outcomes with regard to total (environmental, social and economic) costs and benefits. The Victorian water legislation was modified in 2006 to explicitly require water corporations to have regard to the following principles:

- Ensure water resources are sustainably managed for present and future generations.
- Encourage and facilitate community involvement in the management of water resources.
- Integrate long and short term economic, environmental, social and equitable considerations.
- Conservation of biological diversity and ecological integrity are fundamental considerations.

The breadth of this function means that the decisions made by water corporations have far reaching implications. The result is that water corporations are obliged to take a holistic view in undertaking water management, including the integration of long and short term economic, social and equitable considerations.

Policy context

Melbourne Water is a signatory to the United Nations Global Compact, the world's largest corporate sustainability initiative and, linked to this, we signed a public CEO Statement of Support for the UN SDGs. The UN SDGs represent global best practice and are a yardstick for *what* water corporations can do in striving to efficiently deliver sustainable water cycle services. The Australian Government, along with all other nations committed to implement the UN SDGs and they are therefore an appropriate to use in guiding future water reform in Australia. Furthermore the International Water Association (IWA) Principles for Water Wise Cities provide guidance on *how* best to achieve efficient and sustainable water cycle services. Melbourne Water advocates that any future reform of Australia's water sector take into account, and reflect, these international conventions.

At a State level, Water for Victoria is the overarching framework for managing water and contains many elements consistent with the UN SDGs and IWA Water Wise Principles. The Draft Report goes a long way to complimenting Water for Victoria however we identified several gaps that, if filled, will provide more meaningful reform to Victoria's context and continue the transition to truly water efficient and sustainable States and territories.

Melbourne Water's response

Chapter 3 - Water entitlements and planning

Clear and secure water access entitlements and robust planning arrangements have proved an effective basis for allocating water for consumptive purposes and the environment in the greater Melbourne region for more than a decade. Water System strategies, recently completed in partnership with the metropolitan water retailers, applied an approach grounded in adaptive scenario planning. As a result, Melbourne's metropolitan water industry has an improved understanding of the future possible supply challenges and opportunities to optimise economic, social and environmental outcomes.

Melbourne Water supports 'decision making processes which consider all urban water supply augmentation options on their merits.' We also welcome the Productivity Commission's views on governance models that clearly define accountabilities for making these decisions in the context of the trend towards unbundled and more individualised forms of entitlement (e.g. for harvesting, delivery, and alternative water). Realising the potential benefits of greater water grid connectivity is an additional attribute which will have positive implications for long-term water security but will create governance challenges without clear policy direction.

Melbourne Water welcomes the emphasis on increasing the role of Indigenous people in water resource planning and management and the recognition of the Victorian Government's progress in this area. We have increased our engagement with local Traditional Owners in the development of corporate strategies and we are continuing to look for new ways to recognise Indigenous values and involve Indigenous people in our services. Recently we developed new protocols for repatriating artefacts salvaged during our construction projects with repatriation ceremonies led by Traditional Owners.

Chapter 4 - Water trading

Melbourne Water's observations of the water market in place in northern Victoria supports the view that, "trading benefits the community by allowing water to move to higher value uses..."³ Melbourne Water also supports the fundamental premise that an effective water market 'operates most efficiently when traders have access to reliable and timely information, including about prices.'⁴

Melbourne Water is committed to actively participating in the Southern Central Market trial identified by Water for Victoria. We consider it a critical first step in exploring key elements including caps on trading which protect long-term system security and trading rules which will help determine the circumstances in which important assets such as the North-South pipeline are utilised.

An open and transparent water market is likely to have clear benefits, not least of which is to better identify supply and demand imbalances and allow the efficient reallocation of water to where the price signals are. However, without a transformational shift in the way alternative sources are managed, major supply augmentations are still inevitable. Demand management and efficiencies achieved as a result of competition by comparison are two additional features of the Victoria's water sector that help delay future major augmentations.

Chapter 5 - Environmental management

Melbourne Water supports the enhanced focus on 'ensuring that environmental water assets (both planned and held) are managed efficiently and effectively to maximise environmental outcomes.'⁵ As a designated Waterway Manager with responsibility for administering the Victorian Environmental Water Holder's Bulk Entitlements in the Yarra, Tarago, Werribee systems, our experience reinforces the benefits of the following actions identified by the Draft Report:

- 'Strong governance
- A continued focus on integrating water and waterway outcomes
- More effective monitoring and metering'⁶.

However, the Draft Report's emphasis on environmental water does not reflect the full value the water sector can provide in supporting environmental outcomes. For example, Water for Victoria articulates the role the water sector can play in reducing energy consumption and achieving Greenhouse Gas mitigation objectives.

³ Productivity Commission, pg. 99

⁴ Productivity Commission, pg. 99

⁵ Productivity Commission, pg. 133

⁶ Productivity Commission, pg. 127

Chapter 6 - Urban Water

Melbourne Water welcomes the increased emphasis on urban water, underpinned by outcomes-based regulation and capitalising on the IWCM opportunities prevalent in major growth corridors and significant infill development locations.

It is our view that decentralised IWCM is the next frontier for policy reform in Australia's urban water sector. As the Productivity Commission will be acutely aware, more water runs off rooves and roads and flows to our rivers and bays than is actually used for drinking in Melbourne. Melbourne Water's target of delivering up to 80GLs of water from diverse sources by 2065 that will otherwise be supplied from the drinking water system⁷, is an ambitious goal that will materially delay the next major supply augmentation and will make our city more liveable.

The Victorian Government's Integrated Water Management (IWM) Framework for Victoria (2017) and the associated IWM forums is an important enabler in helping us to achieve this target. However, Melbourne Water's view is that a more holistic National Water Initiative with regard to the additional value that water corporations can provide will lead to substantially improved community outcomes. Below is the list of opportunities for improvement identified by Melbourne Water in its review of the Draft Report's recommendations related to Urban Water:

- Local Participation – Clear water corporation objectives will promote transparent customer engagement and more closely align the delivery of services with customer values.
- Whole of Water Cycle focus - Reframing 'water services' to 'whole of water cycle services' (including floods as well as droughts) expands the policy focus to incorporate water quality, reliability of supply, sustainability and resilience of infrastructure.
- Whole of Catchment Planning – Water Planning should incorporate 'whole of catchment planning' as most urban waterways are part of large peri-urban and rural systems and impact downstream marine values such as bays and reefs.
- Waste & Flood Management – Identifying the standards by which water corporations deliver broader waste management, as well as local flood and drainage management services.
- Liveability - Prioritising clearer liveability objectives.
- Integrated Financing – State-based IWCM economic frameworks, supported by financing tools that enable water service costs and benefits trading, will improve delivery arrangements and help better apportion costs.
- Capital City Vision – A single, long term vision for capital cities will ensure infrastructure investment from all sectors is guided by a common purpose.

If you wish to discuss any aspect of this submission please contact Gavan O'Neill

Regards

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⁷ Melbourne Water, *Melbourne Water System Strategy* (2017), pg. 7