



Government
of South Australia

The Hon Ian Hunter MLC

17WRM822875

Ms Tracey Horsfall
National Water Reform Inquiry
Productivity Commission
GPO Box 1428
CANBERRA CITY ACT 2601

Dear Ms Horsfall

I write regarding the Productivity Commission's Inquiry on National Water Reform. The Government of South Australia welcomes the opportunity to respond to this report.

The 2004 National Water Initiative was instrumental in guiding significant water reform across Australia and it paved the way for the 2007 National Plan for Water Security and the 2012 Murray-Darling Basin Plan.

Despite all the good work undertaken, it is clear that the case for abolishing the National Water Commission, as made by the Australian Government in 2015, was over-stated.

When the *National Water Commission (Abolition) Act 2015* (Cth) was introduced into Federal Parliament to abolish the National Water Commission, the explanation for its abolition was said to be because much of the National Water Commission's reform work had been done. However, based on the findings of the Productivity Commission's draft report, and in wake of the allegations revealed on the *Four Corners* programme in July 2017, it is evident that further reforms are required.

Accordingly, the South Australian Government supports the Commission's suggestion to reinvigorate the national reform agenda and I urge the Commission to consider the merits of a new national and independent body to monitor compliance and enforcement, under a revised National Water Initiative. As part of reinvigorating the national reform agenda, the Productivity Commission should also consider the possibility of financial assistance to resource and drive the accelerated achievement of specific reforms. Milestone payments for compliance should also be considered to provide incentive and greater capacity for comprehensive and prompt implementation.

Minister for Sustainability, Environment and Conservation
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While I note that the Commission is required to minimise duplication with the inquiry it will undertake into the effectiveness of the implementation of the Murray-Darling Basin Plan next year, the lack of commentary on compliance in the draft report is of concern. No national water reform agenda can be truly successful, or command community support, unless it is also backed by an effective national compliance and enforcement regime.

I also note that the Commission appears to indicate that purchasing River Murray entitlements is a viable alternative to desalination. However, this view does not consider the physical realities of the River Murray during an extreme and prolonged drought situation, nor does it take into consideration the costs associated with water trading during a drought. It is also based on an underlying assumption that sufficient water is available for purchase, irrespective of cost. This is not an assumption that the South Australian community can rely on for its critical human water needs during times of drought.

South Australia is of the opinion that there are significant opportunities for urban water to be used more effectively to leverage greater environmental, economic and social outcomes. In particular, policy directions that can utilise urban water to provide green infrastructure and enable peri-urban agriculture need greater consideration. These priority areas do not appear to have been addressed by the Commission in its draft report.

The attached submission presents the South Australian Government's view on the Productivity Commission's draft findings. Each of the Productivity Commission's draft findings and recommendations have been considered. Commentary is also provided, where relevant, for select draft findings and passages of the draft report. If required, further data can be provided directly to the Productivity Commission staff to assist with finalising the report.

If you require any further information, please contact Mr Ben Bruce, Group Executive Director, Water, Department of Environment, Water and Natural Resources (SA),

Yours sincerely

IAN HUNTER MLC

Minister for Water and the River Murray

20/ 11/ 2017

Encl: Submission from the South Australian Government



Productivity Commission National Water Reform Draft Report

Submission from the South Australian Government

November 2017

Introduction

Water is undeniably our most precious resource. Water is vital for the preservation of both quality of life and the environment for all South Australians. It also underpins growth in population and the economy and these are critical to our State's future prosperity.

There has been a long history of successful water management and reform in South Australia in response to the need to increase water security and address declining environmental health.

As a result, our communities have adopted a range of water-saving measures that have significantly reduced consumption and we lead the nation in stormwater capture and re-use, irrigation practices, wastewater recycling and rainwater tank ownership.

South Australia has become less reliant on the issues of 'water supply' and more focused on the benefits of being 'water-sensitive'. This not only ensures our water future, but make us true world leaders in dry-region water management.

But South Australia can't do this alone. The Murray Darling Basin Plan is in crisis following the Four Corners programme in July this year. And now, several months later, we still have almost weekly new allegations of water theft, corruption and systematic undermining of the Basin Plan.

This all comes at a time the Water Minister ruled ineligible to be a Member of Parliament or Minister and further questions are raised over the legitimacy of his decisions.

South Australia remains deeply concerned about the lack of a Royal Commission or an overarching review with judicial powers to compel witness and documents. This submission has been prepared in the context of what we believe is a crisis that has not been addressed.

The South Australian Government's priority is ensuring that all South Australians have sufficient water supplies for a sustainable lifestyle, economy and environment.

Submission against draft findings and recommendations

Water Entitlements and Planning

Draft recommendation 3.1

State and Territory Governments should ensure that entitlement and planning reforms are maintained and improved.

Priorities are:

- a. Western Australia and the Northern Territory should establish statutory-based entitlement and planning arrangements that provide for water access entitlements that are long-term, not tied to land, and tradeable*

South Australia has no comment regarding draft recommendation 3.1(a).

- b. State and Territory Governments should ensure that water entitlement and planning arrangements explicitly incorporate extractive industries, such as by ensuring entitlements for extractive industries are issued under the same framework that applies to other consumptive users unless there is a compelling reason otherwise*

South Australia's water planning and entitlement frameworks already incorporate extractive industries and South Australia agrees with draft recommendation 3.1(b).

- c. State and Territory Governments should develop a process to regularly assess the impact of climate change on water resources. Where this is considered to have been significant and detrimental, they should ensure that the next water plan review fundamentally reassesses the objectives of the plan (including environmental and consumptive) and the consequent balance between environmental and consumptive use of water, to ensure it is suited to a drier climate*

As information becomes available, South Australia is incorporating climate change responsiveness strategies into water planning processes.

By the end of 2016, regional climate change adaptation plans were in place in all 12 State Government-defined regions, meeting Target 62 of South Australia's Strategic Plan. The climate change adaptation framework provides the foundation to develop well-informed and timely actions to increase South Australia's preparedness for the impacts of climate change.

Water security across the State is a priority for the Government. A vital step to ensure water security is the development of Regional Demand and Supply Statements (RDSS). These statements are high-level documents providing a long-term (40-year) overview of water demand and supply for each of South Australia's Natural Resources Management (NRM) regions and incorporating current climate change projections. RDSSs outline the state and condition of all water resources in a region (prescribed and non-prescribed) for drinking and non-drinking quality water, list major demands on these water resources, including the environment, and identify likely timeframes for any possible future demand-supply gap.

Water Allocation Plans (WAPs) outline the basis for sharing water resources amongst different users. The timeframe for WAPs is typically ten years and new and revised WAPs are based on the most recent meteorological, hydrological and hydro-geological information and trends. All South Australian WAPs aim to accommodate climate variability and future climate change scenarios will be incorporated as information becomes available at the WAP scale.

Adequate monitoring and evaluation to support an adaptive management approach is of key importance to allow responsive management in the face of climatic change and uncertainty. WAPs set out the minimum monitoring framework required to assess water demand, trends in water resource behaviour, environmental responses and the capacity of the resource to meet demands. Regular reviews of WAPs allow for the assessment of the effectiveness of principles and policies so that changes can be incorporated as required.

Noting the above strategies that South Australia already employs, South Australia agrees with draft recommendation 3.1(c).

- d. State and Territory Governments should ensure that, as water plans reach the end of their planning cycle, suitable review processes are undertaken that allow optimization of water use and system operation across all users, include explicit consideration of Indigenous cultural values and involve adequate community and stakeholder engagement*

South Australia agrees with draft recommendation 3.1(d).

South Australia's community-based NRM Boards are responsible for reviewing and preparing WAPs. Considerable community and stakeholder input goes into the review of WAPs at the end of their planning cycle and the development of any subsequent amendments. Engagement reports are produced summarising the outcomes from all engagement and consultation during reviews and the development of WAPs. For example, the South East NRM Board is currently reviewing the Upper South East Water Allocation Plans and information on that process can be found at <http://www.naturalresources.sa.gov.au/southeast/water-and-coast/water-allocation-plans/wap-review>.

- e. Recommendation 3.1e: State and Territory Governments should ensure that their entitlement frameworks can incorporate alternative water sources such as stormwater, wastewater, and managed aquifer recharge, so that they do not present a barrier to efficient investment in these supply options*

South Australia believes that entitlement frameworks are unlikely to be the key to securing further investment in alternative water resources.

Surface and groundwater resources that are prescribed already allow for entitlement arrangements for alternative water sources and managed aquifer recharge. Mechanisms are in place to ensure that the right to extract is linked to the volumes recharged. Outside of prescribed areas, it is not currently necessary for there to be a blanket requirement for alternative resources to utilise entitlement arrangements.

South Australia is interested in exploring the use of entitlement frameworks to manage access to storage capacity in an aquifer where demand for recharge could exceed capacity, to avoid undesired effects such as the creation of artesian wells.

Draft finding 3.2

Indigenous access to water resources to achieve cultural values is increasingly addressed by using specific mechanisms for engaging with Indigenous groups in the development of water plans – the exceptions are Western Australia and Tasmania.

The Northern Territory Government is also taking steps to provide Aboriginal landowners with increased opportunity to access water resources for economic development.

There has been evidence of environmental water managers using held environmental water to achieve Indigenous cultural objectives, without forgoing environmental benefits.

South Australia agrees with draft finding 3.2.

Draft recommendation 3.2

State and Territory Governments should ensure that:

- a. Indigenous cultural objectives are explicitly identified and provided for in water plans, and progress in achieving Indigenous cultural objectives is regularly monitored and publicly reported on.*

South Australia agrees with this draft recommendation. South Australia is already progressing, for example, amendments to the Mallee WAP and the Peake, Roby and Sherlock WAP to better acknowledge and recognise Aboriginal nations and their water-related interests. Similar amendments are planned for the Eastern Mount Lofty Ranges and Marne Saunders WAPs.

There is also active engagement underway to develop Basin Plan compliant water resource plans within the South Australian Murray-Darling Basin. Three joint Aboriginal Nation water workshops (April 2016, December 2016, May 2017) and 61 individual Nation meetings have been held. This engagement has identified high-level objectives sought by Aboriginal Nations and informs the development of water resource plans. Further engagement will be ongoing during plan development. The learnings from this engagement are being used to improve engagement and identification of cultural objectives within a broader Water Planning and Management reform process.

- b. there is public reporting of how Indigenous cultural objectives have been considered in the management of environmental water — both held and planned.*

South Australia supports this recommendation, recognising that it may take some time for Indigenous cultural interests to be fully addressed.

Draft recommendation 3.3

Where State and Territory Governments provide access to water for Indigenous economic development they should:

- a. source water within existing water entitlement frameworks, such as by purchasing water on the market or as part of transparent processes for releasing unallocated water*
- b. ensure adequate supporting arrangements (such as training and business development) are in place to enable Indigenous communities to maximise the value of the resource*
- c. involve Indigenous communities in program design*
- d. ensure future governance arrangements are specified and implemented.*

South Australia agrees with recommendation 3.3 and is currently exploring mechanisms to provide access to water for Indigenous cultural values and economic development. Robust governance arrangements are a key part of this process.

Opportunities for capacity building and improving information provision on water rights and water markets are being explored and will include mechanisms to build capacity with Indigenous stakeholders to participate in the water market.

Water Trading

Draft recommendation 4.1

- a. State and Territory Governments should remove those residual trading rules, policies (whether or not explicitly stated) and other barriers that prevent water being traded, or otherwise transferred, between the irrigation and urban sectors.*

There are no barriers on trading water from the irrigation to the urban water sector in South Australia. For example, SA Water is not prevented from accessing the water market, where this is a prudent and efficient way of meeting its public water supply requirements.

The present limit on trading water allocated to SA Water's Metropolitan Adelaide licence reflects long-standing arrangements under the Murray Darling Basin Agreement and will be reviewed as part of the transition to Sustainable Diversion Limit arrangements under the Basin Plan.

- b. The Australian Government should commission an independent review of the effectiveness and efficiency of service standards for trade approvals. The review should consider whether the standards should require shorter approval times.*

Subject to the provision of funding by the Commonwealth, South Australia will be commencing a project to reform its water register and associated systems. This reform aims to modernise water trading systems and improve trade processing times and application processes in South Australia.

South Australia supports this recommendation – recognising that, until the South Australian water registers and associated systems have been modernised, it will be difficult to implement shorter approval times.

- c. The role of governments in providing water market information should be focused on ensuring the quality and accessibility of basic trading data. In fulfilling this role, State and Territory Governments should improve the quality and accessibility of trade data in water registers.*

As indicated above, South Australia is commencing a project to reform its water register in order to improve services for water license holders.

Other feedback on chapter 4

At table 4.3 the draft report states “The decision by the SA Government to build a desalination plant in preference to relying on the cheaper option of purchasing water entitlements from the southern MDB suggests that there was an implicit government policy ban on the purchasing option.”

As indicated, the South Australian Government does not prevent the purchase of water on the River Murray market for urban supply purposes. During the Millennium Drought, significant volumes were purchased to meet Critical Human Water Needs in South Australia.

The Commission appears to believe that purchasing River Murray entitlements was a viable alternative to desalination. This view has no regard to the physical realities of the River Murray system in an extreme and prolonged drought period, where there are significant risks around both the quantity and quality of available water (during the Millennium Drought, the quality of water from the River Murray had become so poor that there was an unacceptable risk that it would not meet drinking water standards).

These risks to water quality and quantity for the River Murray are likely to increase with climate change.

Modelling undertaken for *Water For Good* estimates that, without desalination and other measures, Adelaide would face a shortfall of over 160 gigalitres per annum by 2050 in extreme dry years. This is why the South Australian Government pursued multiple supply and demand options – which were necessary to maintain security of supply, provide for population growth and ensure Adelaide had access to a climate-independent source of water supply.

Compared to the desalination option, achieving an equivalent level of water security under the Commission's preferred approach would require the purchase of more water than will be available for irrigation in the *entire* South Australian River Murray consumptive pool in an extreme dry year (i.e. following water recovery under the Basin Plan). The implementation of such an approach not only would have compromised much needed reforms in the Murray Darling Basin, it also would have caused broader and irretrievable impacts on those regional communities reliant on perennial plantings in the next drought.

Finally, while Adelaide is the most direct beneficiary of the desalination plant, the plant also enhances water security for the State more generally. As an example, water security is enhanced for Victor Harbor because SA Water will not need to draw as much water from Myponga Reservoir for the southern suburbs of Adelaide, leaving more in the dam to meet the growing needs of the Victor Harbor area. Moreover, to the extent there is available capacity, the plant also decreases the risk of cuts in allocations to irrigators and the consequential risk of short- and long-term impacts on irrigation communities from reduced water availability.

At page 117: Actual trade application charges, shown in table 4.4, however, show large variations across jurisdictions that do not appear to be consistent with what would be expected. For example, the charge for an allocation trade in South Australia is more than five times higher than for an online trade in Victoria, despite both jurisdictions having a relatively high number of trades.

South Australia does not have an online trading system comparable to Victoria's. Manual processing is currently required in South Australia due to legacy systems not having the capability to facilitate automated processing.

South Australia is commencing a project to reform its water register and associated systems. This reform aims to modernise water trading systems and bring trade processing times and application processes and costs in South Australia in line with other MDB jurisdictions.

Environmental management

Draft recommendation 5.1

Australian, State and Territory Governments should ensure that their policy frameworks provide for the efficient and effective use of environmental water to maximise environmental outcomes, and where possible, provide additional community outcomes relating to water quality, Indigenous values, recreation and economic benefits.

Australian, State and Territory Governments should enhance the National Water Initiative to align with this recommendation.

South Australia agrees with recommendation 5.1.

Draft recommendation 5.2

State and Territory Governments should ensure the management of environmental flows is integrated with complementary waterway management at the local level.

To achieve this:

- a. State and Territory Governments should ensure that consistent management objectives for rivers, wetlands and floodplains govern the use of environmental water and complementary waterway management activities*
- b. where possible, one planning process should be used to set objectives for both activities, but if not, State and Territory Governments should ensure planning at the local level is aligned and coordinated. Planning processes should also provide explicitly for other public benefit outcomes where these are compatible with environmental outcomes.*

Australian, State and Territory Governments should enhance the National Water Initiative to align with recommendations 5.2 (a) and 5.2 (b).

South Australia agrees with this recommendation 5.2.

The *Natural Resources Management Act 2004* (SA) integrates environmental water delivery with land-waterway management and consistent management objectives. These principles are enacted through the regional NRM plans and WAPs developed by the NRM Boards.

For example, in the Adelaide and Mount Lofty Ranges Region (AMLR), environmental watering and complementary waterway management activities are guided by the AMLR Regional NRM Plan. This plan provides a framework for the investment and delivery of activities associated with the provision of environmental flows to the South Para, Torrens and Onkaparinga Rivers, as well as investment in works designed to optimise environmental outcomes. Further local-level planning work is in process and is expected to deliver additional local benefits.

Similarly in the South Australian Murray-Darling Basin region, annual environmental water planning occurs in collaboration across the State Government, the South Australian Murray-Darling Basin NRM Board, and regional Department of Environment, Water and Natural Resources staff, Local Action Planning and Landcare committees, non-government organisations, the Commonwealth Government and other Basin States. Environmental water planners seek input and support from land managers when developing environmental watering proposals. Examples of complementary management in the Coorong, Lower Lakes and Murray Mouth area include wetland reed control activities, waterway restoration on Hindmarsh Island, acid sulfate soil management and threatened fish management.

Draft recommendation 5.3

Where governments own significant environmental water holdings, they should ensure that decisions on the use of the holdings are made by independent bodies at arm's length from government.

The Australian and New South Wales Governments should review current governance arrangements for held environmental water to ensure holdings are managed:

- a. independently of government departments and political direction*
- b. by statutory office holders with an appropriate range of expertise.*

Australian, State and Territory Governments should enhance the National Water Initiative to align with this recommendation.

South Australia supports this recommendation 5.3 for significant holdings, but believes that the increased transaction costs of establishing and maintaining an independent environmental water holder for small holdings, such as the current South Australian water holding, would be cost-prohibitive and represent a significant disincentive to holding and managing that water for the environment.

Draft recommendation 5.4

Australian, State and Territory Governments should ensure there are clear roles and responsibilities for managing environmental water in shared resources, with no duplication.

Consistent with this principle, The Living Murray program should be disbanded as there is no clear rationale for its continued existence in the context of the Murray-Darling Basin Plan. Each Basin jurisdiction should manage its share of former Living Murray entitlements as part of its broader portfolio of held environmental water. The Murray-Darling Basin Authority should complete the divestment of its holdings.

South Australia does not support this draft recommendation.

The draft report is not clear whether the recommendation to disband The Living Murray programme refers to the entire programme, the central Murray-Darling Basin Authority function, or the held portfolio of water. Divestment of the South Australian water holdings from the Murray-Darling Basin Authority to South Australia is already underway.

South Australia concurs that clarity in e-water management and avoidance of duplication should be the goal, but it does not necessarily follow that disbanding The Living Murray programme should be the focus for achieving this. The case for change, with a clear assessment of benefits and dis-benefits, has not been made. South Australia suggests that this recommendation be reconsidered.

Draft recommendation 5.5

Where capable partners are available, Australian, State and Territory Governments should devolve the use of held environmental water to the lowest practical level, consistent with the principle of subsidiarity.

Australian, State and Territory Governments should enhance the National Water Initiative to align with this recommendation.

In areas of South Australia outside of the Murray-Darling Basin, held environmental water is limited and managed by the NRM Boards.

However, to work well and achieve large scale system-wide environmental watering outcomes in the Murray-Darling Basin, integrated and joined-up environmental water planning is needed. Devolving to lowest levels would not be conducive to the achievement of the coordinated, larger scale and system-wide watering activities that are required to achieve key Basin Plan outcomes.

The South Australian Government is very concerned that this recommendation, if adopted, would result in a fragmented and wasteful approach to environmental water application.

If the Productivity Commission's concern is involvement of local stakeholders in planning and delivery, then there are many effective ways of doing this without necessarily requiring devolution to the lowest level. Murray-Darling Basin Authority annual reporting on the Basin Plan outlines examples of best practice in involving stakeholders in planning and delivery of environmental watering.

South Australia suggests that the Commission review this recommendation to identify and clearly state the policy goal to be achieved, leaving detailed implementation to Basin governments and partners.

Draft recommendation 5.6

Australian, State and Territory Governments should improve monitoring, evaluation, auditing and reporting to demonstrate the benefit of allocating water to the environment, build public trust in its management, keep managers accountable and make better use of environmental water over time.

Priorities are:

- a. Australian, State and Territory Governments should increase their focus on monitoring environmental and other public benefit outcomes — not just flow delivery — where additional effort would be commensurate with the risk to, and value of, those outcomes*
- b. monitoring and evaluation should involve collaborative and complementary partnerships, consistent methods that enable the synthesis of outcomes across different temporal and spatial scales, and long-term investment. In the Murray-Darling Basin, governments should develop a strategy to coordinate monitoring and evaluation of the outcomes of environmental flows, both planned and held*

- c. *all managers of environmental flows should publicly report on whether outcomes have been achieved or not, and the reasons why*
- d. *Australian, State and Territory Governments should establish arrangements for independent auditing of environmental flow outcomes to support transparency*
- e. *managers of held environmental water should use the results of monitoring, evaluation and research to improve water use as part of an adaptive management cycle. To achieve this, managers should clearly allocate responsibility and provide adequate resourcing for adaptive management.*

South Australia supports the recommendations – and agrees there is a need to improve monitoring, evaluation, auditing and reporting to demonstrate the benefit of allocating water to the environment, particularly at the wider community level.

Improved analysis of the environmental outcomes of flows programmes will allow a more robust comparison between these outcomes and those of other management measures (e.g. weed and pest animal control). This will lead to optimal investment for the desired environmental outcomes.

With regard to the issue of building public trust, South Australia believes that engagement with local communities is already established and substantial. Monitoring outcomes are presented to local community advisory and reference committees and shared via local media and other local engagement activities, including site visits.

As to building public trust in the wider community, one issue is the time lag for ecological impacts to be realised from environmental watering events and reflected in available reports. This is particularly prevalent in the Murray-Darling Basin where one pulse of environmental water can be used at many different sites, and reports that outline specific environmental impacts can be published 18 months or longer after the watering event.

South Australia agrees that there is a clear need to continue work to align the Commonwealth Environmental Water Holder, Murray-Darling Basin Authority, Joint Venture and State monitoring programmes across the Murray-Darling Basin. Work has commenced through the *Joint Venture Monitoring and Evaluation Program* to fill gaps in monitoring coverage and implementation of the Basin Plan. The need to report against Basin Plan Matter 8 is driving additional work needed to report outcomes from environmental watering.

South Australia does not agree that the results of environmental monitoring, evaluation and research are not already used to improve water use as part of an adaptive management cycle. South Australia's monitoring and evaluation, as well as research at sites such as the Coorong, Lower Lakes Murray Mouth and Chowilla, provide critical data that underpins the development of environmental-watering proposals at these sites.

Other feedback on draft recommendation 5.6

At page 153: the draft report states “SA’s approach does not appear to have changed materially from 2014, when the NWC found “little evidence of ecosystem health monitoring to align with plan outcomes”.

Monitoring the effectiveness of environmental water provisions in WAPs is improving over time with a number of areas demonstrating good practice in monitoring and reporting of environmental water. For example, in the Western Mount Lofty Ranges, the Adelaide and Mount Lofty Ranges NRM Board, in partnership with SA Water and the Department of Environment, Water and Natural Resources, has undertaken detailed monitoring of fish, aquatic habitat, vegetation and macroinvertebrates since the environmental water programme commenced delivery in 2011. Significant resources, including funding of more than \$1.2 million, have been invested in evaluating and reporting on the outcomes of environmental flows, and all reports are publicly available, or soon to be publicly available, at <http://www.naturalresources.sa.gov.au/adelaidemtloftyranges/water/managing-water/water-courses/environmental-flows>.

At page 155: the draft report states “SA’s plan for the Adelaide Plains has also been delayed”

South Australia is not clear what is meant by this statement. Environmental flows for rivers across the Adelaide Plains form part of the Western Mount Lofty Ranges WAP and are being managed (where relevant) through that Plan. The WAP for the Adelaide Plains has been delayed, but this WAP is only for groundwater. The delay is due to the complexity of the management issues, existing user processes and application of the unbundled water rights framework.

At page 170: the draft report states “that South Australia has a policy ban on the use of recycled water to supplement urban water supply (“planned potable reuse”).

Within South Australia, the Government currently has a broad policy position that does not allow for the use of treated wastewater and stormwater as potable supply. However, under the current drinking water guidelines, there is scope for such projects to be approved if adequate treatment can be delivered and public health outcomes can be protected. South Australia is a leader in using recycled water and stormwater for non-potable uses.

The Government supports appropriate use of alternative water sources for appropriate non-potable uses. For example, since the Millennium Drought, the State Government has accelerated stormwater harvesting, working in partnership with local councils and others who own or manage stormwater infrastructure. As a consequence, Adelaide’s capacity to harvest stormwater has increased from around one gigalitre per year in the early 2000s to almost 22 gigalitres per year currently.

South Australia has also increased the amount of wastewater recycled. In 2015-16, SA Water recycled 33 per cent of wastewater from its wastewater treatment plants, equating to more than 31 gigalitres. This was the second highest percentage wastewater reuse of any water utility in Australia with over 100,000 customers during 2015-16.

Urban Water

The report suggests the development of general regulatory principles to be uniformly applied across all jurisdictions. "The Commission agrees that regulation in each jurisdiction should follow a set of common principles. Consistent with those suggested by participants, these include:

- clarifying that the objective of regulation is to promote the long-term interests of consumers*
- ensuring that prices reflect the full efficient cost of service provision*
- providing incentives for utilities to innovate and improve their efficiency*
- considering the long-term financial viability of utilities in regulatory decisions*
- promoting transparent customer engagement*
- facilitating effective competition in potentially contestable parts of the industry."*

South Australia supports, in principle, the adoption of a common set of regulatory principles and notes that the proposed principles generally align with those already in place in South Australia.

Draft recommendation 6.1

State and Territory Governments should ensure that independent economic regulation is in place for all urban water service providers of an appropriate scale, to further promote efficient service delivery.

Priorities are:

- a. extending independent price regulation to retailer-distributors in south-east Queensland and the Northern Territory's Power and Water Corporation*
- b. establishing a standing reference for the Economic Regulation Authority in Western Australia and the Queensland Competition Authority to set or review prices.*

South Australia agrees with recommendation 6.1 and has no comment on the identified priorities.

South Australia suggests that the Productivity Commission consider how environmental and social externalities could be more effectively integrated into economic regulation, such that pricing reflects the true cost of supply.

Draft recommendation 6.2

To promote competition by comparison, Australian, State and Territory Governments should ensure that performance monitoring data are transparently reported for providers of all sizes and subject to independent scrutiny.

Priorities are:

- a. the Queensland Government extending the reporting of financial information to service providers with fewer than 10 000 connections*
- b. the New South Wales and Queensland Governments requiring appropriately qualified independent bodies to review financial performance frameworks to ensure that the pricing practices of regional service providers are monitored for consistency with National Water Initiative pricing principles*
- c. the Bureau of Meteorology, and the New South Wales and Queensland Governments, requiring providers to report a financial return metric that excludes developer charges and contributed assets alongside the economic real rate of return metric.*

South Australia has no comments on recommendation 6.2.

Draft recommendation 6.3

State and Territory Governments should:

- a. ensure that roles and responsibilities for supply augmentation planning are clearly allocated between governments and utilities*
- b. require that decision-making processes are consistent with good planning principles, in particular that they consider all options fully and transparently, including both centralised and decentralised approaches (including indirect and direct potable reuse, and reuse of stormwater), and are adaptive in response to new information.*

South Australia has no comments on recommendation 6.3.

Other feedback on section 6

At page 183: Planning process require clarification in some cases...In South Australia legislation requires the minister to publish demand and supply statements and outline policies and plans to ensure supplies are secure and reliable. However, it is not clear what the role of the primary utility, SA Water, is in these processes, nor how any policies and plans published by the minister would interact with SA Water's investment planning.

At page 184: South Australia's planning processes also lack transparency. While legislation requires state-wide demand and supply statements to be published and updated every five years, this has not occurred (though some regional plans have been published). Further while the South Australian Government reviewed its state-wide water policy in 2014-15 this review was not published. The Commission understands that the South Australian Government is

developing a new water security plan based on the Water for Good review, however, the content of and process for developing that document is not clear.

The draft report only references one water utility in South Australia. Although SA Water provides retail services for the vast majority of customers in South Australia, ESCOSA has licenced 69 water or sewerage retailers with a further seven categorised as exempt from requiring a licence to retail.

South Australia does not agree that our planning process lacks transparency and believes that SA Water's role in the process is clear.

In South Australia, the development of demand and supply statements is undertaken in consultation with key water stakeholders including NRM Boards, Regional Development Australia, the Local Government Association and SA Water. There are significant levels of information-sharing between the South Australian Government and SA Water in the preparation of these statements. The statements are high-level documents that assess water security at a NRM regional scale. The statements' water security analysis triggers the initiation of a planning process aimed at addressing the future water shortfall. This would typically occur five years before demand is projected to outstrip supply.

SA Water's Long Term Plans have a more focussed approach for augmenting SA Water's assets and guiding capital works programmes with the aim of meeting customers' potable water requirements in specific areas of the State.

Further information on the different water plans in South Australia is available in the Water Planning for South Australia brochure at <https://www.environment.sa.gov.au/managing-natural-resources/water-resources/planning>.

Since the release of South Australia's water security plan, *Water for Good*, the Government has continued working with regional communities in the preparation of water demand and supply statements. The State Water Demand and Supply Statement is being progressively developed by assessing the water situation in each of the NRM regions of South Australia. Five regional demand and supply statements have been prepared for the regions of Eyre Peninsula, Northern and Yorke, Alinytjara Wilurara, South Australian Arid Lands and Kangaroo Island.

The five-year review of *Water for Good*, which is scheduled to commence in 2018, will be released alongside a draft new state-wide water security strategy, which will allow for community input.

Draft recommendation 6.4

State and Territory Governments should ensure that decentralised integrated water cycle management (IWCM) approaches are considered on an equal footing alongside other water supply and management approaches, particularly in the planning of new developments to support growth.

Priorities are:

- a. ensuring that place-based IWCM plans are developed for major growth corridors and significant infill development locations*
- b. ensuring that options identified in IWCM plans are considered in water system planning, including both high-level system-wide planning and detailed investment planning, and in land-use planning*
- c. ensuring that IWCM projects are implemented when they are shown to be cost-effective (considering their full range of benefits)*
- d. reviewing the role that developer charges play in planning for new developments.*

South Australia agrees with recommendation 6.4. Such initiatives are proposed as part of the Urban Water Plan for Greater Adelaide which is still under development. In the interim, the South Australian Government has funded work (delivered through the Goyder Institute for Water Research) designing an optimal water mix for Adelaide based on traditional and alternative water sources (including groundwater, surface water, stormwater, treated waste water and desalinated seawater).

NRM Boards will also undertake additional work specific to their regions. For example, the Adelaide and Mount Lofty Ranges Natural Resources Management Board, in partnership with the Department of Environment, Water and Natural Resources and SA Water, has also developed geographically specific forecasts for water demand in 2025 and 2050 for the purpose of matching with potential alternative water supply opportunities.

Draft recommendation 6.5

State and Territory Governments should ensure that current environmental regulations protect urban waterway health as cost-effectively as possible, and do not prevent the achievement of other public benefits.

Priorities are:

- a. reviewing existing regulatory regimes for wastewater discharges, beneficial use of wastewater and sewer overflows to ensure that they are sufficiently flexible and outcomes-focused.*
- b. considering the need to amend relevant national policies and standards.*

South Australia agrees with recommendation 6.5 subject to the caveat that reforms to environmental regulations for wastewater treatment plants and sewers need to actively consider both the public health and environmental risks and how these can be adequately managed. For example, in South Australia the use of wastewater with a high phosphorous load in place of environmental flows can trigger algal blooms. Further, an outcome-based approach to environmental regulation provides greater flexibility in how objectives are achieved and can provide outcomes more efficiently.

South Australia suggests that the Commission refine this recommendation to consider such circumstances.

Draft recommendation 6.6

To improve service efficiency and address remaining water quality issues, funding arrangements for local water utilities in regional New South Wales and regional Queensland should be significantly reformed.

These States should replace existing capital grants to water utilities with Community Service Obligation payments that are not tied to capital expenditure, and are tightly targeted at unviable (high-cost) regional and remote services.

South Australia has no comment on recommendation 6.6.

Draft recommendation 6.7

Local water utilities and State Governments in New South Wales and Queensland should strategically examine opportunities to improve service delivery through collaboration. Contingent Community Service Obligation payments may provide an opportunity to promote this collaboration.

South Australia has no comment on recommendation 6.7.

Water infrastructure and agriculture

Draft recommendation 7.1

State and Territory Governments should ensure the delivery of government-owned irrigation infrastructure services is underpinned by full cost recovery and economic regulation that is proportionate to the scale of the regulated service.

Priorities are:

- a. any terms of reference issued to the Queensland Competition Authority by the Queensland Government for advice on the pricing of irrigation infrastructure services should be aligned to the National Water Initiative Pricing Principles. The reason(s) for any Government decision to diverge from price recommendations based on those principles should be published*
- b. the Western Australian Government should amend the role of the Economic Regulation Authority (ERA) so that irrigation bulk water customers can request the ERA to review the infrastructure prices and/ or services proposed by Water Corporation (WA) as part of bulk water supply contract negotiations*
- c. the Tasmanian Government should amend the role of the Office of the Tasmanian Economic Regulator (OTTER) so that irrigation bulk water and distribution customers of*

Tasmanian Irrigation can request OTTER to review the infrastructure prices and/or services of Tasmanian Irrigation

- d. an equitable share of the cost of any price review requested by users should be treated as a regulatory cost and passed through to users at the discretion of the bulk water supplier in Western Australia and Tasmania.*

South Australia has no comment on recommendation 7.1.

Draft recommendation 7.2

Relevant jurisdictions should ensure that the cost of River Murray Operations (RMO) are recovered from water users. RMO costs should also be subject to a periodic independent review. Specifically:

- a. South Australia should pass through RMO costs to bulk water entitlement holders*
- b. RMO should be subject to transparent and independent five-yearly efficiency reviews overseen by the economic regulators in New South Wales, Victoria and South Australia. The next review should be completed by 31 December 2019.*

South Australia supports progressing recommendation 7.2b as a first step. However South Australia does not support recommendation 7.2a as it does not appear to adequately reflect the contributions that South Australian urban water users make, through SA Water, towards recovering River Murray Operations costs.

Draft recommendation 7.3

Governments should not provide grant funding for irrigation infrastructure, or that part of infrastructure, that is for the private benefit of irrigators. Rather, Australian, State and Territory Governments should ensure that:

- a. National Water Initiative-consistent water entitlements and planning are in place before any new irrigation infrastructure is considered (including infrastructure being financed under the Northern Australian Infrastructure Facility)*
- b. government grant funding is limited to those projects, or parts of projects, delivering a public good. Any grant funding should be subject to an independent analysis of the project being completed and available for public comment before any government announcements on new infrastructure are made. The analyses should establish that the project will be:*
- c. environmentally sustainable*
- d. economically viable and deliver public benefits that are at least commensurate with the grant funding being provided*

- e. *government financing (such as loans) for infrastructure generating private benefits should only be provided after:*
- f. *an independent assessment has confirmed the finance can be repaid on commercial terms. The assessment should be released for public comment before any announcement on new infrastructure is made*
- g. *robust governance arrangements have been put in place to deliver merit-based decision making and the ongoing monitoring of (and public reporting on) the government's investment*
- h. *sufficient water entitlements have been sold to reduce the project's risk profile and provide assurance the finance will be repaid.*

It is understood that the Commission's intention is that governments should not provide grant funding for irrigation infrastructure, or that part of infrastructure, that is solely for the private benefit of irrigators.

South Australia agrees with the intent of recommendation 7.3 but suggests that the recommendation could be refined and should not exclude opportunities for economic stimulus and industry renewal. The role of the government in seizing these opportunities is crucial to stimulate short-term demand, and foster long-term growth. Long-term growth requires long-term strategies and tools that facilitate and enable renewal such as seed capital funds, policies fostering entrepreneurship and start-ups, skills upgrading and training and investments in capabilities for innovation.

Draft recommendation 8.1

Australian, State and Territory Governments should:

- a. *identify the key knowledge and capacity building priorities needed to support the ongoing implementation of the National Water Initiative (including the revisions and enhancements recommended in this report)*
- b. *develop mechanisms through which the jurisdictions can work cooperatively and share knowledge to build overall capability and capacity.*

South Australia agrees with recommendation 8.1.

The South Australian Government is a strong supporter of knowledge and capacity building priorities. The Millennium Drought clearly exposed the increased threat to the security of water supplies for communities, industry and the environment. South Australia's future economic growth and resilience is dependent on the provision of sustainable water supplies under a variable and changing climate.

This vital importance of water to the quality of life and the economic interests of the people of South Australia was recognised by the South Australian Government in establishing the Goyder Institute for Water Research in July 2010 and the development of a \$50 million, five-year strategic

research plan. Following a successful five years, the Institute's term was extended in the 2015-2016 State Budget for a further four years.

The Goyder Institute is a partnership model that brings together South Australia's leading water researchers through collaboration with the South Australian Government, CSIRO, Flinders University, the University of Adelaide, UniSA and the International Centre of Excellence in Water Resources Management (ICE WaRM). The Institute informs policy and decision-making, identifies future threats to water security and assists in an integrated approach to water management in South Australia and beyond.

Opportunities for the ongoing implementation of the NWI should consider how new water management policy can drive innovation and the development of new products and services in the water industry.

South Australia agrees that ongoing research is needed but specific attention should be paid to how research can effectively inform policy development. South Australia has provided a proposal to the National Water Reform Committee on a process to enable government policy and water managers to engage with research partners to ensure alignment of research investment and delivery of government objectives and priorities.

South Australia has been proactive in sharing information and collaborating with other States.

South Australia has established Water Sensitive SA as a targeted water sensitive urban design capacity building programme. The programme is in its fourth year and has achieved popular support from planners and practitioners in the urban water industry. The programme is made possible by the funding support of the AMLR NRM Board and other local government partners, and has recently negotiated a three year extension to the programme.

In addition, South Australia is a keen supporter and financial member of the Cooperative Research Centre for Water Sensitive Cities and is currently working on developing a programme to transfer knowledge into practice in the Adelaide region. This initiative has already developed broad support across various Adelaide region partners and will deepen the relationship over the next 12 months.

Draft recommendation 8.2

Where Governments consider there are significant and rapid adjustment issues affecting communities as a consequence of water reform, the response should:

- a. avoid industry assistance and subsidies*
- b. consider all the factors impacting on the community (not just water reform)*
- c. target investment to developing the capacity of the community to deal with the impacts of structural adjustment*
- d. be subject to monitoring and publicly reported evaluation of outcomes.*

South Australia agrees with recommendation 8.2 and is using this form of response in the current Lower Limestone Coast WAP. The WAP reduces water allocations in management areas at high or very high risk of unsustainable use using a series of staged reductions linked to clear resource condition triggers and an adaptive management approach. There are no buybacks or subsidies but assistance in accessing water on the market and improving practices to reduce water consumption is provided.

Draft recommendation 9.1

Australian, State and Territory Governments should recommit to a renewed National Water Initiative through COAG by 2020. This should:

- a. *maintain the achievements in water entitlements and planning, water markets, water accounting, water pricing and governance, knowledge and capacity building, and community engagement delivered by the current National Water Initiative as the key foundations underpinning sustainable water resource management and efficient infrastructure service delivery*
- b. *revise a number of policy settings:*
 - *incorporating extractive industries and alternative water sources into water entitlement frameworks*
 - *water planning to take account of climate change and enable ongoing optimisation*
 - *Indigenous access to water for economic purposes*
 - *arrangements for water trading between irrigation and urban sectors*
 - *better targeted adjustment assistance*
- c. *significantly enhance policy settings relating to:*
 - *urban water management to ensure innovative and efficient provision of services in the future under the combined pressures of population growth and climate change*
 - *environmental water management to ensure maximum return on government investment in this area*
 - *decision making on building and supporting new infrastructure for agriculture.*

South Australia supports a revision of the National Water Initiative and will consider the Productivity Commission's specific proposals during that revision.

That said, South Australia asks the Productivity Commission to consider the following potential priorities for reform before finalising its report.

1. There are significant opportunities for urban water to be used more effectively to leverage greater environmental, economic and social outcomes. In particular,
 - policy directions that can utilise urban water to provide green infrastructure and enable peri-urban agriculture; and

- the role of water in improving the liveability of cities (urban heat, energy reduction, reduced mortality, especially of the elderly, and stress reduction due to extra green space) in a climate change future need greater consideration.
2. The Productivity Commission should consider what role the Commonwealth can reasonably play in accelerating urban water reform, including assessing the extent to which:
 - the Commonwealth's welfare system can be used to compensate disadvantaged groups from the impact of future pricing reform;
 - incentives can drive innovation and enable the development of demonstration projects; and
 - guidelines and research can support new approaches to urban water use and management at the individual jurisdiction level.
 3. These considerations should also include the role of the Commonwealth in stormwater management, following on from the Senate Inquiry into Stormwater Management as reported in December 2015.
 4. Consideration should also be given to the role that the Commonwealth could play in developing a better understanding of remote water sources for sustainable use by communities and industry, including the water energy nexus in remote areas.
 5. Lastly we note with concern that the Commission's report barely refers to compliance. Compliance is still a significant issue and is of direct interest to all entitlement holders. Continuing reform is of no consequence without adequate compliance. The Productivity Commission should consider the merits of an independent national body to monitor compliance and the transition from existing water policy frameworks to a new regime under a revised National Water Initiative.

Draft recommendation 9.2

In developing the renewed National Water Initiative, Australian, State and Territory Governments should:

- a. *consult with relevant stakeholders, including by establishing an Indigenous working group to provide advice on the development of relevant provisions*
- b. *ensure that progress with implementing a renewed National Water Initiative continues to be independently monitored and reported on every three years.*

South Australia supports the intent of recommendation 9.2, however suggests that the timeframe for reporting be five-yearly – in order for change, legislative and operational, to be implemented and quantifiably demonstrated between reviews.