

Urban Water the Future – price monitoring or regulation?

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How the Commission came to this issue

- The Commission completed a broad ranging public inquiry into Australia's Urban Water Sector in 2011
- Inquiry was to assist COAG to advance urban water reform

Key problems in the Urban Water Sector

- Inefficient investment in supply augmentations
- Inefficient allocation of water
- Undue reliance on costly water restrictions
- Costly water use efficiency and conservation programs
- Addressing affordability by distorting prices

These problems occurred with and without price regulation

Why?

- Unclear, conflicting, inappropriately assigned objectives and policies
- Unclear responsibilities and accountabilities

The Commission proposed a reform package

- Proposed a package of reforms to overcome these problems
 - *focus on improved institutional & governance arrangements*
 - *once these arrangements in place, move to price monitoring*
- Not simply price regulation vs price monitoring

Price regulation – current arrangements

Metropolitan areas

- Prices set by independent regulators in NSW, Victoria, SA and the ACT
- Elsewhere regulators have an advisory role

Non-metropolitan areas

- Regulatory price setting less common

Rationales for price regulation

- Preventing the exercise of market power
- Avoiding the politicisation of utility pricing
- Ensuring full recovery of efficient costs
- Community reassurance

Price Regulation

Potential advantages

- make utilities more efficient
- provide reassurance to consumers
- reduce politicisation

Price regulation

Potential disadvantages

- high transaction costs
- costs from regulatory error
- impediment to innovative procurement (real options) & pricing (multiple tariff offerings)
- cost recovery

Price regulation vs price monitoring

- Neither price monitoring nor price regulation on its own will overcome key problems in water sector

So what is needed?

- Clarification of objectives, roles & responsibilities
- Retailer-distributors with responsibility for competitive procurement & water security
- Incorporation of utilities
- Government charter with utility
- Public reporting against the charter
- Periodic public review of utility performance vs charter
- Greater consumer involvement
- ... and then a move to price monitoring

Charter between a government and its water utility

- Obligation to serve and procure supply
- Obligations regarding environment and public health
 - *utilities must comply with these conditions*
- Retail-distribution utilities apply portfolio manager framework
- Transparent processes and procedures for choosing supply augmentation
 - *tenders for supply, public consultation, public reporting of decision, audit of decision by independent body*
- Transparent principles, process and procedures for setting prices
 - *public consultation, public reporting, periodic review, use marginal opportunity cost of supply to set volumetric prices*
- Borrowings and dividends policies
- Customer service standard/hardship policies
- Risk allocation (consumers, government, private)
- Clearly specified and funded CSOs

Questions

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