



**public interest**  
ADVOCACY CENTRE LTD

**Secure and Sustainable Urban Water Supply  
and Sewerage Services for Non-Metropolitan  
NSW: submission to inquiry**

30 April 2008

**Mark Byrne    Senior Policy Officer**  
**Hugh O'Neill    Policy Officer**

## The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that identifies public interest issues and works co-operatively with other organisations to advocate for individuals and groups affected.

PIAC seeks to promote a just and democratic society by making strategic interventions on public interest issues in order to:

- expose unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate;
- promote the development of law—both statutory and common—that reflects the public interest; and
- develop community organisations to pursue the interests of the communities they represent.

## Energy + Water Consumers' Advocacy Program (EWCAP)

This Program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the Program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the Program from a community-based reference group.

PIAC's work on rural water issues in recent years has concentrated on participating in a working group to investigate the water and sewerage supply services to rural Indigenous communities in NSW. The 2006 report of this group is likely to lead to a new State Government-funded project to monitor these services, as a first stage to improving their maintenance. PIAC recognises that some of the same monitoring and maintenance issues face other, non-Indigenous small rural communities, and that they may also require specific funding and specialist assistance from the State Government.

## Governance

PIAC offers the following comments to assist in determining the preferred model in reforming of rural water utilities (RWUs):

1. As the summary of key performance indicators for the NSW RWUs in 2005-06 reveals<sup>1</sup>, there are obvious economies of scale involved in the supply of water and sewerage services. These economies will become more critical over time as rainfall and population decline in some parts of inland NSW, while coastal areas are likely to incur significant population increases and a lesser decline in rainfall. Economies of scale may—though they do not always—create greater opportunities to plan for and fund major supply augmentation projects such as water recycling and sewer mining, which may make it less likely that RWUs will resort to expensive and environmentally dubious 'quick fixes' such as desalination plants.
2. In principle, given the competing demands for the increasingly scarce supply of this naturally monopolistic resource, as well as the need to implement water sharing plans to increase environmental flows, the geographic spread of amalgamated RWUs should therefore align, as closely as possible, with water catchments and the relevant work of Catchment Management Authorities (CMAs).

---

<sup>1</sup> NSW Department of Water and Energy, *Inquiry into secure and sustainable urban water supply and sewerage services for non-metropolitan NSW – Discussion Paper* (2008) 10-13.

3. Independent of the reform model eventually chosen by the NSW Government, there are limits to the ability of RWUs to be financially self-sufficient. Increasing competition for a reduced supply and the advent of higher technology supply and demand management solutions, for example, covers for dams to reduce evaporation, mean that the State Government should expect to provide greater engineering and other specialist expertise, and perhaps funding for critical projects, in the future.
4. Corporatising water authorities can provide business benefits. However, based on its experience with Sydney Water, PIAC believes there are problems in having corporatisation as the governance model for RWUs. There is an inherent conflict between a corporation's need to produce a substantial dividend for its shareholders—which would naturally lead it to encourage more consumption—with the increasing need to encourage water efficiency. This conflict has led Sydney Water to ask the Independent Pricing and Regulatory Tribunal (IPART) for substantial price rises from consumers to offset declining revenue during the recent drought.

A corporate model also means that low-consumption and disadvantaged households are less attractive, so elaborate hardship provisions and other regulation are needed to protect them from the vagaries of the free market. From a public interest perspective, corporatisation is most likely to succeed when the corporatised utilities have legislated 'triple bottom line' objectives and are able to profit from water efficiency and conservation as well as, or even instead of, increased consumption.

There are other problems with the corporatisation model, particularly regarding accountability and ensuring sustainable investment in infrastructure. For example, in 1995 South Australia's state-owned water supply authority was corporatised, becoming the SA Water Corporation. Only two years' later Adelaide's sewerage system broke down, forcing residents to endure the 'Big Pong'. The Big Pong was essentially caused by the cutting of corners in the maintenance of major sewerage infrastructure in order to maximise profits. Any reforms must take into account these issues and ensure that water infrastructure remains publicly accountable.<sup>2</sup>

PIAC understands that an integral issue in ensuring the success of rural water authorities is the ability to recruit, train and maintain skilled labour (mainly engineers). The successful rural water authority model must have an innovative approach to this issue, and be willing to facilitate unprofitable policies such as sharing labour skills with other supply areas.

## Regulation

PIAC understands that many RWUs are operating sustainably and efficiently, and do not require State Government assistance. Generally, these authorities have a critical mass of consumers that assists them to survive difficult, drought-affected times.

PIAC recommends that State Government assistance, or takeovers of RWUs, should only occur as a last resort and be done:

- with the consent of the RWU; or
- linked to the size of the supply areas (that is, the number of connections in the supply area); or
- after a severe compliance/performance failure.

---

<sup>2</sup> Christopher Sheil, *Water's Fall* (2000) 60-66.

PIAC believes that great emphasis should be placed on open and accountable compliance reporting. Exposing the issues facing RWUs may help solve many of the problems they face, and may warrant government intervention to ensure that consumers have safe and reliable access to water services.

PIAC favours regulations that promote conserving water as well as keeping water prices at an affordable level.

While the National Water Commission (NWC) currently favours scarcity pricing to manage demand, consumers in all states have responded well to water restrictions during the drought. PIAC would only support IPART having oversight of rural water prices if there is a commitment from the NSW government not to introduce scarcity pricing to manage demand during droughts. At the very least there would need to be strong evidence that consumers would not be disadvantaged, or that there is no viable alternative, to scarcity pricing.

Likewise, PIAC sees little evidence that inclining block tariffs (IBTs) are an effective means of managing demand, and therefore contends they should be set at a level to discourage usage only of very high users (over 400 kl per year). On the other hand, there is currently a wide range of tariff structures between RWUs, and there is scope for a more streamlined pricing system to be employed throughout larger amalgamated supply areas.

## **Socio-economic impacts**

Low-income households spend a higher proportion of their incomes on utilities, so steps should be taken to ensure that the amalgamation of RWUs does not lead to higher administrative or infrastructure overheads. New, larger authorities should also be required, as a condition of their licences, to set up customer councils to ensure good communication between each authority and its customers.

## **State wide consistency for concessions and community service obligations**

Sydney Water operates an extensive concessions program, delivering significant financial assistance to its customers through programs such as its pensioner rebate and the Payment Assistance Scheme (PAS). Many RWUs, through lack of systems and resources, are unable to provide this level of assistance, leaving non-metropolitan water consumers at a disadvantage.

The review of RWUs provides a good opportunity to establish a uniform set of hardship provisions and concession policies across the State to protect consumers in financial hardship or at risk of disconnection. Such an approach is consistent with the national Productivity Commission's recommendation that there be more interaction between metropolitan and non-metropolitan regions.<sup>3</sup>

PIAC recommends a rebate scheme be instigated allowing consumers access to affordable water services irrespective of the supply area in which they live. Rebates set as a proportion of a bill could accommodate regional differences in water costs.

## **Experience in other jurisdictions**

Jurisdictions around Australia have conducted similar reviews into non-metropolitan water supplies. For instance, severe drought and population movements in south-east Queensland have required the Queensland Government to examine reforms of the water authorities in that area. Likewise, the Tasmanian

---

<sup>3</sup> Productivity Commission, *Towards Urban Water Reform: A Discussion Paper* (2008), xiv.

Government is reviewing water supply operations in remote areas of Tasmania after population migration has highlighted poor compliance with health and safety criteria in these remote areas.

PIAC recommends examining the models proposed and implemented by other jurisdictions. For example, water authorities in Victoria were amalgamated based on catchment areas in order to integrate water resource planning from source to tap.