Urban Water – Getting the Regulatory Structure Right for Competition

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12 September 2014
Outline

- Why competition is important
- Current state of play in urban water
- Impediments to further competition
- Way forward
Why competition is important

- Competitive market - rival firms strive to deliver the best deal for consumers

- Competitive markets can lead to:
  - higher productivity
  - greater innovation
  - wider choice of products and services
  - lower prices
  - better information
Competition in the electricity market

- Significant reforms over 1990s and 2000s
  - Disaggregation: generation, transmission, retail
  - Single wholesale electricity market in eastern Australia
  - A national regulatory framework:
    - rules, access regime, market operator, price regulator

- Impact of reforms in parts opened to competition
  - New entrants
  - Consumer choice
Urban water Vs electricity

- Urban water markets often geographically isolated
  - costly to transport, unless natural connectivity

- Water can be stored
  - dams gradually deplete, but can replenish quickly

- Urban water market includes several products
  - potable water, recycled water, wastewater services

- Water regulated for health & environment impacts.
NSW urban water market – state of play

- Incumbent monopolies
- Vertical integration
  - Some separation: SCA and Sydney Water
  - Hunter Water & Central Coast councils fully integrated
- Competitive procurement – eg, O&M,BOOT contracts
- Desalination / recycled water / decentralised schemes
- Independent price regulation
NSW urban water market – state of play

- Reforms introduced by the Water Industry Competition Act (WICA) 2006
  - Licensing regime to allow new utilities to enter market
  - New entrants can negotiate access to infrastructure

- Impact of WICA
  - As yet no 3\(^{rd}\) party access seekers
  - Small private utilities in new development areas
  - Alternative solutions, eg recycling.
Impediments to a more competitive urban water market

- Inconsistent obligations and opportunities of incumbent and new entrant, eg:
  - New entrant must obtain water from new sources
  - Incumbent’s area based licenses Vs new entrant’s scheme specific licences
  - Incumbent can inform/influence land use planning
  - Incumbent required to deliver CSOs.
Impediments to a more competitive urban water market

- Postage stamp pricing & no developer charges
  - Incumbent can cross-subsidise higher cost / new development areas

- No incentive for incumbents to negotiate access agreements.
Facilitating a more competitive urban water market

- Level playing field: consistent obligations/opportunities
  - market to inform land use planning
  - cost reflective pricing or developer charges
  - non commercial/CSO services contestable
  - no requirement for new entrant to obtain water from sources other than a public water utility
  - efficient regulatory regime to protect consumers, public health & safety, the environment
    - robust & efficient supplier of last resort arrangements
Facilitating a more competitive water market

- Enhanced access
  - more expansive access regime and more information

- Other measures
  - Scarcity pricing
  - Market based mechanisms to achieve environmental objectives
Way forward – key reforms

- WICA has led the way in reform – a good start
- Further reforms –
  - consistent rights / requirements for incumbents and new entrants
  - enhanced access regime
- Cost reflective pricing / developer charges.