Independent Pricing and Regulatory Tribunal

Urban Water – Getting the Regulatory Structure Right for Competition

Peter J Boxall AO
Chairman, Independent Pricing and Regulatory Tribunal

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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 3rd 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.

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