



WATER SERVICES
ASSOCIATION OF AUSTRALIA



**WSAA submission to
Northern Territory
Government: Improving
economic regulation of
water and sewerage services**

November 2022



Introduction

WSAA commends the NT Government for commencing a review of its approach to economic regulation of water businesses in the Northern Territory. The consultation paper sets out the rationale for continued reform clearly. WSAA agrees with the directions for reform set out in the paper.

For many years WSAA has been a strong advocate of independent economic regulation as a key pillar of the corporatisation model for government-owned utilities, and more generally for ensuring that monopoly industries are focused on customer outcomes.

WSAA commissioned work in 2014 on improving economic regulation in Australia, and has contributed to reviews since then in NSW, Victoria, Tasmania, South Australia, Queensland as well as nationally on different aspects of economic regulation. The principles of economic regulation set out by the Productivity Commission in its report on National Water Reform are very similar to those put forward by WSAA (see below).

Need for ongoing reform of economic regulation

Nationally we are witnessing significant cost of living pressures for customers, particularly with rising energy costs. Within the water industry we are experiencing significant supply chain cost pressures combined with large capital programs to service growth, maintain ageing assets and improve climate resilience.

In this context economic regulation has a continued important role to play to ensure that the long-term interests of customers are protected. Good economic regulation can support the objectives of customers, water utilities and their government owners.

In particular, economic regulation has an important role in setting transparent service standards for water and wastewater services. This provides clear guidance to utilities and certainty on the planning and on the investments required to meet those standards.

Ideally service standards are set in consultation with customers and the community about their needs and their willingness to pay for services. In its price setting role economic regulation provides assurance to the community that standards are being delivered efficiently and at the lowest price possible.

Objectives

The review has identified a number of the objectives for the economic regulation framework. These are:

- serve the long-term and evolving interests of customers and communities
- ensure efficiency and affordability of services
- drive independence, transparency and accountability in decision-making
- ensure security and resilience of water supply and sewerage services
- contribute efficiently and appropriately to liveability, economic, environmental and health outcomes.

WSAA supports these objectives. Our work nationally demonstrates that the overriding objective of economic regulation is to support the long-term interests of customers. Each of the other objectives are important and met if the long-term interests of customers is treated as paramount. We note that this is the objective of regulation adopted by the Essential Services Commission in Victoria, the Independent Regulatory and Pricing Tribunal in NSW and by the Australian Energy Regulator for the energy sector, among others.

An important component of this objective is that it explicitly refers to the 'long term'. Water is an essential service with long lived assets. Water utilities must plan for the long term and have the certainty to deliver over the long term. It follows that they must generate sustainable levels of revenue to maintain financial viability over time if the objective is to be met.

Principles of good regulation

The high-level principles of sound economic regulation are well defined. In 2014 WSAA set out the principles in table 1. While there has been significant reform since that time these principles remain relevant and are very similar to those set out by the Productivity Commission in its Review of National Water Reform released in 2020.

Table 1 WSAA principles for good economic regulation

Establishing regulation which is independent from Governments	This is necessary to ensure regulators are free from undue influence that could compromise regulatory outcomes. It is also important that regulators can determine prices rather than just recommend.
Setting clear objectives for regulators to act in the long term interests of customers	Lack of clarity in objectives leads to inconsistency in decision making and lack of accountability.
Establishing incentives for productivity and innovation	Productivity and innovation are necessary for utilities to drive further efficiency gains. In addition, future efficiency and innovation will be driven in part by greater private involvement in the water industry and by adopting new business models.
Assessment of financial viability to protect the long term interests of customers	The sector needs to be financially sustainable to maintain service levels over the longer term. Regulators need to incorporate financial viability metrics into the price determination process.
Strong and transparent customer engagement within the regulatory framework	Utilities need to better understand customer needs and what drives customer value. It is critical that this understanding is part of the regulatory process.
Merits review and appeal mechanisms for utilities and other stakeholders	These are essential to ensure accountability of regulators for their decisions and are a precondition for further private involvement.

As the consultation paper suggests, much of the work lies in implementing the principles in a fit for purpose way in each jurisdiction.

One of the differences we observe across Australia is the degree of independence of the economic regulator. In particular, whether the economic regulator recommends to government the efficient level of revenue/prices a utility can charge, or whether it legally sets this level of revenue independent of government.

Our observation is that providing the regulator with the power to legally set revenue more strongly supports the overall objective of promoting the long-term interests of consumers. WSAA's customer research finds that customers dislike sudden price spikes, that do not give them time to adjust their behaviour. Customers appreciate the need to invest for future generations and if prices need to increase, they support gradual and predictable increases. Setting revenue and prices independently from the government assists removing the politics from water and is more likely to generate a long-term sustainable price path.

Fit for purpose

WSAA strongly agrees that economic regulation needs to be fit for purpose, and we recognise that the Northern Territory faces a unique set of circumstances.

For larger service areas we consider that the principles of best practice economic regulation should be applied. However, PWC also provides services to a large number of remote indigenous communities through its subsidiary Indigenous Essential Services Pty Ltd (IES). In November WSAA released *Closing the Water for People and Communities Gap: A review on the management of drinking water supplies in Indigenous remote communities around Australia* (<https://www.wsaa.asn.au/publication/closing-water-people-and-communities-gap-review-management-drinking-water-supplies>)

WSAA initiated this review of remote water services to elevate these issues in the national conversation, and to recommend ways to close the gap in the delivery of safe drinking water including water quality (health and aesthetic aspects) and water security (reliability of water supply, particularly in the face of climate change).

This report highlights the significant gap in the quality and quantity of water services provided to remote communities. It estimates that over \$2 billion in funding is necessary raise services to comply with Australian Drinking Water Guidelines.

Against this background the role of economic regulation for service provision to remote communities different to that in large service areas. While the long-term interests of customers remain paramount, as does transparency of process, the task of the economic regulator is not to set an efficient level of full cost recovery. Rather, the focus of economic regulation in remote communities is to:

- formalise the level of service to be provided; and
- identifying the level of funding needing to bring services up to standard.

Such a role for regulation in remote communities is consistent with the original intent of the corporatisation model implemented as part of competition policy reforms in the 1990s. Under the model governments can direct utilities to meet social objectives through specifying explicit Community Service Obligations. The regulator helps ensure that these services are delivered efficiently.

As the WSAA report finds, it is critical that as part of this process indigenous communities have a strong voice in determining an appropriate level of services.

Contact

WSAA welcomes the opportunity to discuss this submission further.

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