



Response to the VCEC Draft Report
“Water Ways: Inquiry into Reform of the
Metropolitan Water Sector”

January 2008

Executive Summary

The Australian Industry Group response to the VSEC draft report is about practical issues and concerns from the perspective of industry end-customers. Our comments focus on principles and preferences rather than structural outcomes.

The effective and prompt water conservation response by industry to the continuing drought has been through relationships with water retailers that have emerged over a lengthy period since disaggregation in the mid-1990s. Service delivery by retailers to industry has evolved and been effective. Consistency and certainty in relation to both water and trade waste management issues are important to the industrial customer.

The review has confirmed that potential cost savings from structural change are available but are relatively small. While efficiencies and savings from shared actions should be explored and implemented, end-customers wish to ensure that structural change would not jeopardise the continuation of the close relationships that delivered water efficiency, environmental improvements and sustainable industry outcomes. Assurances about levels of various services are important while industry would expect current effective aspects of the industry to be maintained and developed.

Ai Group believes that any changes must be consistent with the Government's mandate to reduce red tape regarding regulation. Structural changes must contribute positively to co-operative, less regulatory focuses by authorities to assist industry to have certainty.

We recognise and support the establishment of a water supply grid operator to manage and decide between the emerging water supply sources on a State-wide basis.

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1. Introduction

The Australian Industry Group (Ai Group) welcomes this opportunity to make a further contribution to the Victorian Government's review of the metropolitan water industry structure being conducted by Victorian Competition and Efficiency Commission (VCEC). This material follows our previous submission documents in November 2007.

In view of the short timeframe available for input to the review, and difficulty in obtaining member feedback during the January vacation shutdown, our comments focus on principles and preferences rather than structural changes to the water industry. Ai Group's response document will be followed by a consultation session with VCEC and summary of issues raised in a meeting in early February 2008.

1.1. Australian Industry Group – Background Information

The Australian Industry Group (Ai Group) is Australia's leading industry organisation representing 10,000 employers nationally and 4,000 in Victoria. Membership is drawn primarily from the manufacturing, construction and related services sectors. Many of these companies are water-intensive, where water is an essential input as a raw material, and/or an essential part of the manufacturing process. Companies commonly have multiple sites, which may be located in various water service areas across metropolitan Melbourne and regional Victoria.

This submission has been developed in close consultation with members of Ai Group's Victorian Environment Working Group which has been active for 35 years. Membership of the Working Group includes companies that are recipients of various awards that recognise achievements water conservation, innovation in trade waste management, production of equipment for stormwater management, water re-use and "third pipe" systems for recycling.

Ai Group is grateful for VCEC's commitment to dialogue to industry end-customers through Ai Group's Environment Working Group which is scheduled for Thursday 7 February 2008 on the resumption of industry after the annual factory shutdown and vacation period. This recognises the difficulty of obtaining industry feedback and consultation during January. We look forward to discussion with the commission regarding the options for water and trade waste management. We will provide a follow-up document after the discussion session.

We are also grateful that our comments regarding the trade waste management framework (for the current Trade Waste Review by the Victorian Government which is in-progress) have also been considered by the Commission.

While an investigation of reasons for variations in water prices across the metropolitan area was the apparent trigger cause for the current VCEC Review, it is clear the Commission's draft report has raised a great number of issues that are outside the scope of the review which need to be addressed subsequent to the review.

2. Comments on VCEC's draft report

The following is a summary of our comments on issues raised in the Commission's draft report:

- The draft report is a well written document that has managed to integrate a broad diversity of viewpoints with impartiality in a relatively short period of timeframe. VCEC has demonstrated its independence and commitment to direct consultation with end-customers as well as parties within the water industry and regulators.
- The draft report recognised the relatively unique characteristics of the current structure in the metropolitan area and Victoria.
- The draft report has incorporated information from the retailers and wholesaler that attests to the cost-effectiveness of current operations. The range of figures and estimates shows the performance of the various organisations, even though there were acknowledged variations in the way calculations are done.
- It confirms that changes to the current three retailer structure in Melbourne can "at best only have a relatively small effect on retail water prices" (p xxiv). This is consistent with Ai Group's prior submission.
- The draft report recognises that increases in bulk charges are the dominant influence on retailers' future costs. It is important that these costs are understood prior to changes to the structure of the industry. This is consistent with Ai Group's prior submission.
- The report points out that "the extent to which competition by comparison operates to drive efficiencies in the sector has diminished over time" (p 54). Ai Group member companies would consider that the service to industry has developed further than is acknowledged through ESC's current assessment of 'competition by comparison'. This is consistent with Ai Group's prior submission.
- Highlights the need for determining system operations through a 'water grid manager' (p 183). This is consistent with Ai Group's prior submission.
- The draft report also acknowledges the importance of the need to address business concerns about the lack of coordination in the management of trade waste" (p 77).

3. Ai Group's response

The following is a summary of Ai Group's response to items raised in the discussion document. Ai Group's feedback is around practical end-customer concerns from the viewpoint of the operators of water intensive sites and trade waste service users. Consequently, there are many references to aspects of trade waste management. However, we are not in a position to advance structural reforms to the water industry:

- Feedback from Ai Group's member companies reinforces that changes to the current structure of the water industry should not jeopardise current levels of service and interaction between retailers and customers.
- The effectiveness of some aspects of the current arrangements is evidenced by the achievement of large reductions in volumes of potable water use in a relatively short period. Changes to the metropolitan water industry should ensure that service levels are maintained or preferably enhanced to meet emerging challenges of drought, adjustment to climatic variations and carbon constrained future.
- VCEC's recommendations for change to the current structure of the metropolitan water industry need to be consistent with the Victorian Government's mandate to reduce red tape and duplication of regulatory arrangements.
- There is a need for consistency of arrangements in water and trade waste service areas that are currently adjacent to the metropolitan area but will become connected through the emerging water supply grid eg Barwon Water, Western Water, Westernport Water.
- There is an urgent need for completion of other investigations that are in progress that will have an impact on the water industry, prior to making decisions about structural reforms.

It is critical that the DSE Review of the State-wide trade waste management framework is finalised in order to identify actions and reforms. The DSE Trade Waste Review issues paper was distributed in December 2005 and its Future Directions Statement was anticipated in early 2006.

Equally, the completion of Melbourne Water's Sewerage Strategy will enable a better understanding of investment priorities in the trunk system and treatment plants.

- Meeting lower water demand objectives by retailers (ie. lower sales of water) is contrary to current pricing objectives of the ESC – this is a disincentive for the current retailers. There should be incentives and rewards for effective water reduction strategies (that diminish income to the retailer). This is consistent with Ai Group's prior submission.

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- The report acknowledges that “business concerns about the lack of coordination in the management of trade waste” (p 77) should be addressed. It is important that the role and functions of a regulator in trade waste management are considered. As mentioned in our submission to the Government’s trade waste review, Ai Group believes that the process of setting Trade Waste Agreements should be streamlined. Ai Group members often relate concerns over lack of consistency and certainty about trade waste agreements and want to ensure there is a practical and consistent approach adopted for trade waste management and decision making. As with most regulatory processes, those affected would prefer to negotiate and deal with one party. Whilst Ai Group recognises the difficulties inherent in the trade management area, the current processes for negotiation of variations are a disincentive to achieving sustainable industry outcomes.
 - Ai Group believes that there is a need for a revised TWAAC (Trade Waste Acceptance Advisory Committee) group in the water industry – the revised entity should be able to make decisions not just recommendations. This is consistent with Ai Group’s prior submission.
 - We support initiatives that enable greater capacity to negotiate opportunities and options with trade waste customers to reduce impacts on the environment.
 - Ai Group supports the case for a State-wide grid manager for the emerging water network (to manage the supply of water from the various potential sources eg environmental/existing river catchments, desalination, north-south pipeline, aquifer sources etc). This is consistent with Ai Group’s prior submission.
 - Ai Group believes that separation of the retail and distribution functions would not be an effective option for structural reform (p 82) - there are fundamental differences to the energy sector (where retail and distribution functions are separated). VCEC acknowledges that there is insufficient information to assess potential economic impacts of this separation (p 85). However there may be benefits from ‘ring fencing’ the respective operational and capital costs to gain a better understanding of the emerging needs of the metropolitan water sector. This is consistent with Ai Group’s prior submission.
 - The Review has shown there is an important need for greater understanding of costs and priorities in operating the water industry to meet emerging challenges of drought, resource availability and implications on industry.