

WHEN WILL THE ACT GOVERNMENT REVIEW ITS WATER POLICY?

When the ACT Government published its long term water strategy in 2004 ('Think Water Act Water') it promised a public review of the strategy in five years time – that is, in 2009. The review has not yet occurred, however. In response to inquiries it made in 2008 and 2009, the Horticultural Society was assured that the review would occur as planned; and after 2009, the Society was periodically assured that the review was 'in progress'. It was still 'in progress' in August this year.

Perhaps the review began to idle because the emerging drought which had overshadowed development of the 2004 strategy started to ease, and water became more abundant in the ACT; and perhaps subsequently the review was delayed because of emerging argument over future management of the Murray-Darling Basin, and uncertainty about where it could end up. As the ACT is in one of the catchments of the Basin, its water supply will be affected to some degree by what is eventually decided about water management for the whole Basin. But Minister Corbell has recently said that the second draft plan for the Basin is '*adequate for [the ACT's] immediate and foreseeable needs*' (29 November 2011).

The case for proceeding promptly with the long-delayed review of the ACT Government's water policy does not, however, rest simply on fading reasons why it may have been delayed. It is based essentially on the fact that the arrangements for water management established by the 2004 strategy are still largely in place, and there are now well documented arguments for re-thinking much of this strategy. These arguments come from a comprehensive and rigorous review of urban water issues in Australia recently completed by the Productivity Commission ('Australia's Urban Water Sector', August 2011, pp 814). Of particular interest to Canberra gardeners will be the Commission's implicit criticism of key elements of the 2004 strategy – water restrictions and some water conservation measures – and also of the ACT's current method of pricing water.

This note summarises very briefly a few of the points in the Commission's report relating to these matters.

Water restrictions

The Commission concluded, on the basis of surveys and considerable empirical research, that the costs of the types of water restrictions which have been imposed in the ACT and elsewhere in Australia exceed their benefits. They '*generate net welfare losses for households, businesses and the community. They deny consumers the opportunity to choose how to use water in the ways that are most valuable to them. The evidence suggests that the costs of restrictions are substantial (and) many consumers would prefer to incur a larger bill rather than be subject restrictions on their use of water*' (p.194). The Commission recommended that '*The prescribed use of water restrictions should be the exception, limited to emergencies and of short duration*' (p.195).

The Commission said that water restrictions are likely to have cost *'in excess of a billion dollars a year (nationally) from the lost value of consumption alone'* (p.xvi), and it noted that costs for the ACT had been estimated to range from \$5.2 million a year for Stage 1 restrictions to \$209 million a year for Stage 4 restrictions. The costs arise not only from the direct expenses, labour and inconvenience involved for householders in complying with restrictions but also from losses of household and community amenities when gardens, lawns, parks and playing fields deteriorate from lack of water. Restrictions can deny to those who highly value such amenities opportunities to preserve them, when water is scarce. They are also arbitrary in that some uses of water – outside the house – are constrained but others are not. All these costs are itemised in great detail in the Commission's report.

Surveys quoted by the Commission have shown widespread acceptance of water restrictions and compliance with them, despite their costs. This has been attributed to a sense of community spirit: *'water-saving activities give individuals a sense of community spirit and solidarity by working together to achieve a common purpose'* (p.188). But surveys have also shown widespread interest in various options for paying to avoid restrictions. More strangely, one survey revealed that 20 per cent of its respondents, evidently with a different angle on community spirit, *'would be willing to pay an additional water charge to stop other water users accessing the water market in order to alleviate the burden of water restrictions'* (p.186).

Water use efficiency and conservation measures

These include government information and education campaigns focused on saving water, together with various programs and incentives to economise on the use of water, such as by installing rainwater tanks, recycling equipment and other water saving devices. The Commission concluded that more balanced information should be provided by governments in this area, essentially with respect to the costs and benefits of water-saving measures. To illustrate how excessive enthusiasm for saving water can distort judgement, it quoted results from a study of water saving investments by Melbourne households. These showed that costs per megalitre of water saved ranged from \$770 for AAA shower roses to \$9,069 for rainwater tanks to \$33,395 for AAA dishwashers. These costs compared with water prices at the time of between \$750 and \$1,300 per megalitre.

Water pricing

Two of the guiding principles in the Commission's report are that the supply of water should be responsive to consumer demands, and that prices should reflect the real costs of supplying and distributing water efficiently. Consistent with this, it argues for more flexible pricing of water at various stages in its distribution (bulk through to retail). Although it sees more scope for scarcity pricing of water at the bulk stage, it also suggests various ways of approaching more flexible (scarcity) pricing at the retail stage, such as more frequent

billing, annual or staged price changes to reflect water scarcity (analogous to the logic of staged water restrictions), and different charging structures for consumers with different preferences between a stable water price and a guaranteed water supply.

The Commission argues for a simple, two-part bill for water at the retail stage, with one part related to the fixed charges for water and the other related to the amount of water used, charged at a flat rate that would not change with the total amount of water used. (This contrasts to the present situation in the ACT, for example, where the rate for the first 200kL used per year is half that for additional water.) (The Commission argues that objectives often behind the setting of lower rates for lower water users – such as assistance to low income households – should be met in other, more efficient ways.)

The Commission is also critical of the systems for setting and monitoring water prices that operate throughout Australia, including in the ACT, where an independent agency advises on prices with a focus on covering 'efficient' costs of the utilities supplying water and preventing politicisation of water pricing. It details an alternative system for monitoring water prices, more consistent with the objectives it proposes for water pricing.

Its analysis of systems for water pricing is particularly pertinent for the ACT, and provides yet another reason why the Government should proceed promptly with its long-delayed review of its water strategy. The agency for advising on our water pricing – the Independent Competition & Regulatory Commission (ICRC) – has recently begun its preliminary work towards advising the Government on the next five-year water pricing plan for the ACT (for the period 2103-2018). The ICRC has previously interpreted its charter to focus it essentially on 'efficient' pricing by ACTEW, and its charter does not obviously invite attention to the much wider range of issues raised in the Productivity Commission's report which are relevant to the ACT. The Government should address these issues seriously before the ICRC inquiry goes much further, if the horse is to stay in front of the cart.

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