

Introducing competition in the water industry

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Introduction

My presentation today will cover:

- ▼ The various ways in which competition can be introduced in the water industry
- ▼ An overview of the *Water Industry Competition Act 2006* and the reasons for its introduction
- ▼ Implications for local water authorities

Competition and the water industry

- ▼ Typically, a single vertically integrated monopoly supplies water and wastewater services to a geographic area
- ▼ Unlike other network industries, major competitive reform is limited in the water industry
- ▼ Various ways to introduce competition:
 - ▼ ‘yardstick’ or comparative competition (Melbourne, UK)
 - ▼ competition **for** the market (France, Adelaide)
 - ▼ competitive procurement of services/supply inputs (Sydney)
 - ▼ competition **in** the market (UK, NSW - soon)

Competition and the water industry

Competition in the market

- ▼ Definition: multiple providers competing to supply the same group of customers
- ▼ Introduced in other network industries (eg, gas & electricity), but rarely observed in water
- ▼ England and Wales is only example so far
 - ▼ But limited to large non-residential customers and the supply of water (not wastewater)
 - ▼ Facilitated by third party access regime
- ▼ Scotland will introduce retail competition in 2008 (but third party access prohibited)
- ▼ In NSW, the *Water Industry Competition Act 2006* will facilitate competition in the water and wastewater industries

Water Industry Competition Act 2006

Background

- ▼ In 2004, the NSW Government asked IPART to investigate alternative arrangements for the delivery of water & wastewater services, including possible private sector involvement
- ▼ The WICA was introduced to give effect to IPART's recommendations
- ▼ Services Sydney's proposal to enter the wastewater market to compete with Sydney Water also provided impetus for reform

Services Sydney

- ▼ Services Sydney plans to collect sewage from customers and treat it to a high level so it can be used for environmental flows and a range of other uses
- ▼ In 2005, Services Sydney was successful in its application to have parts of Sydney Water's sewage transportation network declared under Part IIIA of the Trade Practices Act
- ▼ In late 2006, the ACCC was asked to arbitrate a dispute relating to the access pricing methodology. The ACCC released its decision in June
- ▼ Services Sydney has applied for a review of the ACCC's decision

Water Industry Competition Act 2006

- ▼ Aim of the WICA is to harness private sector innovation and investment in the NSW water and wastewater industries, and to promote competition
- ▼ The WICA provides for:
 - ▼ the creation of a licensing regime for network operators and retail suppliers
 - ▼ the establishment of a third party access regime
 - ▼ binding arbitration for sewer mining disputes
- ▼ The WICA was enacted at the end of 2006 and will commence when regulations are in place (expected to be October 2007)

Water Industry Competition Act 2006

Licensing regime

- ▼ Only corporations can apply for a licence
- ▼ Public water utilities do not need to apply for a licence
- ▼ Two types of licence:
 - ▼ Network operator's licence – authorises the licensee to construct, maintain and operate water infrastructure
 - ▼ Retail supplier's licence – authorises the licensee to supply water or provide a sewerage service through water infrastructure
- ▼ Minister may grant a licence (following a recommendation from IPART) if applicant meets certain criteria

Water Industry Competition Act 2006

Licensing regime (continued)

- ▼ IPART is preparing a licence application form for ministerial approval, along with a “how to apply” guide
- ▼ Planning and environmental approvals are still required
- ▼ Licensees’ performance is to be monitored and audited
 - ▼ Licence can be withdrawn
 - ▼ Penalties up to \$500,000 for first day of contravention and \$20,000 for each subsequent day

Water Industry Competition Act 2006

Third party access regime

- ▼ Allows private sector service providers (third parties) to gain access to the services of monopoly infrastructure to compete in upstream or downstream markets
- ▼ Regime will initially apply to storage and transportation infrastructure in Sydney Water and Hunter Water's areas of operation, but Minister can extend to other areas
- ▼ Access can be obtained through coverage declaration or access undertaking
- ▼ Regime adopts a negotiate/arbitrate framework
- ▼ IPART will arbitrate disputes between parties on terms and conditions of access (including access price)

Water Industry Competition Act 2006

Sewer Mining

- ▼ Definition: the extraction of the contents of a service provider's sewer, typically for recycling and other uses
- ▼ Prices will be negotiated between sewer miner and service provider
- ▼ The service provider can lodge a sewer mining policy that provides for disputes to be arbitrated by IPART

Implications for Local Water Authorities

- ▼ Developers may seek 'inset' appointments for new residential developments
- ▼ Large industrials may seek a licence to provide recycled water to other nearby commercial/industrial users
- ▼ Opportunity for private sewer miners to source, treat and resell treated wastewater (eg, to golf courses, irrigators)
- ▼ Retailer of last resort role may fall to local water authority
- ▼ Provision of access to networks may entail more sophisticated costing/accounting systems



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