

Water Market Reform

Structural change

The Victorian water sector is undergoing change, this includes:

- Development of a water grid to physically facilitate multiple supply options
- Developing 3rd party access regimes to legally facilitate multiple supply options
- Planning for desalination to ensure water security

Water pricing

A major implication of water reform is the need for water pricing that will enable private investment and access to water infrastructure. A potential risk from these reforms is change in water quality, reliability and greater price volatility.

Winners and losers

The design of the water tariffs has a material impact on consumers as they allocate cost to households. For example: rates based water charges increase costs for the asset rich more than the asset poor; seasonal tariffs allocate costs to households that have more summer use (such as those with gardens); while inclining block tariffs tend to allocate costs to households with high consumption (with potential impacts for large families).

Ways to improve equity

Pricing principles are a tool to allocate costs equitably, ensuring that households can afford essential water use. Concessions provide additional financial support for disadvantaged households to ensure households maintain adequate and affordable water supply. In particular, concession design can be used to help households manage price volatility or different impacts across demographic groups (families/pensioners) or household types (home owners/renters).

Ways to reduce water consumption

The current approach in Victoria is to utilise water restrictions as well as inclining block tariffs to ensure that the cost of water increases with consumption levels.

Water *restrictions* have been an effective way to reduce consumption. However, there is concern that restrictions penalise some segments of the community more than others. *Scarcity pricing* has been promoted as a way to address this inequity. The purpose of scarcity pricing is to ensure that water prices respond to supply shortfalls and thus (in theory) influence demand. The idea of *demigrants* has recently been canvassed by the Government and other stakeholders. A demigrant allows a predetermined water allocation per user and restrictions would thus not be necessary. Demigrants can be delivered in conjunction with pricing structures, e.g. to ensure that essential use is priced at an affordable level.

Water Market Reform: Key Agencies and Links

Agency	Role
Essential Service Commission - http://www.esc.vic.gov.au/public/	Economic regulator for the Victorian water sector. Regulates and monitors prices, service standards and market conduct.
Department of Sustainability and Environment – www.dse.vic.gov.au	State water policy
Department of Human Services – Concessions Unit - http://www.cyf.vic.gov.au/concessions	Delivers State water and sewage concessions and other assistance programs.

‘Our Water Our Future’, DSE website providing information on water management and planning in Victoria - <http://www.ourwater.vic.gov.au/>

ESC information about Melbourne metropolitan water price review 2009-10 to 2012-13 - <http://www.esc.vic.gov.au/public/Water/Consultations/Melbourne+metropolitan+water+price+review+2009-10+to+2012-13/Melbourne+metropolitan+water+price+review+2009-10+to+2012-13.htm>

ESC Customer Service Codes - <http://www.esc.vic.gov.au/NR/exeres/70FEED56-8ACE-477B-A0D4-7B2987D8AC0C.htm>

DHS State water concessions and assistance programs - <http://www.cyf.vic.gov.au/concessions/concessions/rates-water-and-property>

Victorian Competition and Efficiency Commission’s Inquiry into reform of the metropolitan retail water sector – <http://www.vcec.vic.gov.au/CA256EAF001C7B21/0/A6BF69E5CAC3A082CA25733E0023CD2D?OpenDocument>

CUAC funded analysis of Regional Water Companies’ Water Plans - <http://www.cuac.org.au/database-files/view-file/2357/>

Consumer Action Water Debt Fact Sheet - <http://www.consumeraction.org.au/downloads/Water-May07.pdf>

Consumer Action research Report, Water Reform in Victoria Independent pricing regulation and its outcomes for consumers (2007) - <http://www.consumeraction.org.au/downloads/Waterreport-final.pdf>