

Title	WATER INDUSTRY BILL
House	ASSEMBLY
Activity	Second Reading
Members	COLEMAN
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WATER INDUSTRY BILL

Second reading

Mr COLEMAN (Minister for Natural Resources) -- I move:

That this bill be now read a second time.

This bill introduces a number of reforms to the Victorian water industry to facilitate its long-term development and to extend the application of commercial practices.

While Victoria has a well-developed water industry, the industry is suffering from a legacy of debt due to a history of capital misallocations, and there has been insufficient incentive to improve customer service and reduce costs.

The reforms introduced by this bill build on recent progress in both Melbourne Water and the non-metropolitan water authorities. The reforms aim to provide greater efficiency and competitiveness, to empower consumers and to reduce state debt.

The purpose of the bill is to provide for an environment and structure which facilitates the efficient running of the various water retail licensees as commercial businesses. These licensees will thus be encouraged to make commercial decisions on matters such as investment, service delivery and asset management within a regulated framework to protect consumers interests. This bill is a key part of ensuring that water companies reduce costs, improve services, behave in a commercial way and maximise efficiency as corporatised entities. The bill does not privatise any water authority in Victoria, nor does it presuppose the eventual privatisation of any part of Melbourne Water or any other authorities.

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Rather, it provides a mechanism that is compatible with continued public ownership combined with improved efficiency through a greater commercial focus.

Consistent with the shift away from a rating basis for charges for water and associated services, the bill provides protection for consumers in terms of consistency of supply. Provisions concerning the maintenance of supply and limitations on restriction of supply are translated from previous water industry legislation. Provisions concerning resource management continue through the application of the Water Act 1989. This protection will be enhanced by the licensing conditions and through the oversight of the Regulator-General. Credit management policies will be subject to licence conditions designed to ensure that deposits are confined to customers with established poor credit records. The changes associated with corporatisation are designed to maintain industry practices, existing industry standards and security of water supply to household customers who face financial difficulties.

A variety of concessions are currently provided to domestic customers. The three major concessions are:

- pension rebates providing a maximum \$135 rebate on annual charges;
- waivers of charges, either partly or wholly, for people in necessitous circumstances; and
- the provision of additional time to those experiencing financial difficulties in prompt payment.

There are similar provisions in respect of the non-metropolitan water authorities. The government recognises the social importance of these concessionary schemes and the bill provides for their continuance.

Water supply, sewerage and drainage services are currently provided by the Melbourne Water Corporation in the greater Melbourne area and by various water authorities in the rest of the state. Melbourne Water Corporation is constituted in accordance with the Melbourne Water Corporation Act 1992 and provides services in accordance with obligations and powers primarily contained in the Melbourne and Metropolitan Board of Works (MMBW) Act 1958. The other water authorities exercise powers under the Water Act 1989. Melbourne Water Corporation and the water authorities also perform other functions including waterway management, flood plain management and, in the case of the Melbourne Water Corporation, the establishment and operation of metropolitan parks and the management of industrial waste.

In September 1993, the government signalled a program of reform for the water sector through its report entitled *Reforming Victoria's Water Industry: A Competitive Future*.

The reforms signalled included a clearer separation between the public good functions (regulatory and community service) and commercial functions (customer services) within the water industry, and greater financial transparency and accountability.

Consistent with those principles, this bill introduces an operating licence system in which licences contain all the key operational and customer service parameters. Licences may be issued for the provision of water supply and sewerage services, the establishment and management of water supply headworks (dams, treatment plants, etcetera), the establishment and management of sewage treatment works, and the provision of drainage services. The licences will be defined in terms of geographic areas.

The first group of licences will be issued to three new state-owned corporations servicing the Melbourne area, which will hold water and sewerage licences.

The new companies are City West Water Ltd, Yarra Valley Water Ltd and South East Water Ltd. Each of the new corporations will have its own customer base; and although they will not compete directly for each others customers, they will compete by comparison in the service they each offer their customers. Each business will have full responsibility for service delivery, asset management and financial viability.

Water will be sold from the headworks business to each of three regional distribution businesses at a price reflecting the future costs of maintaining Victoria's access to a secure water supply. The resulting price will ensure that no-one is denied water while ensuring that water is used in a way that reflects its true economic value. The government's policy is to increase the emphasis on user-pays pricing. This focus on payment for water used rather than property value means that consumers will have some control over their water bills and will have an economic incentive not to waste water.

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This contrasts with the former system, which gave consumers no incentive to save water, and, indeed, actually encouraged its wasteful use.

Other important aspects of demand management, such as community education, research, planning and developing, and implementing programs for conservation are incorporated in the bill. All licensees will be required to develop programs for demand management for the approval of the Minister for Natural Resources.

Since July this year, the parks and waterway functions of the Melbourne Water Corporation have been carried out by a state body, Melbourne Parks and Waterways. The bill establishes Melbourne Parks and Waterways as a statutory corporation with a charter of managing and controlling open space, parks and waterways within the metropolitan area for the purposes of conservation, recreation, leisure, tourism and navigation. Melbourne Parks and Waterways will also manage the hydraulic capacity and water quality of some waterways.

Under the bill the management of parks and the recreational, educational and leisure-value-related functions of waterways, together with the drainage and water quality aspects of certain waterways, will be transferred to the new statutory authority, Melbourne Parks and Waterways. The corporation will be responsible to the Minister for Conservation and Environment but will

have its own skill-based board of directors and chief executive. It will be funded by rates or charges on landowners in the specified metropolitan area, which will be in lieu of the metropolitan improvement rate, and it will have the power to enter into arrangements with others to collect its revenue. The corporation will acquire assets from the Melbourne Water Corporation and employ some of its staff.

It will have all the powers, including powers under regulations, needed to establish, operate and manage parks and open-space facilities, and it will have Melbourne Water's existing powers to develop, maintain, protect and enhance the aesthetic, recreational, educational and leisure values of the waters, lands and works provided for in the Melbourne and Metropolitan Board of Works Act 1958.

Catchment and waterway management responsibilities are a mix of regulatory and commercial functions. As such, they are inconsistent with the strong commercial focus of the new regional businesses. The government recognises that catchment management needs an integrated approach. The elements of policy, water resource assessment and regulatory activities which more appropriately belong under the policy arm of government will be transferred to the appropriate government department or agency. Melbourne Parks and Waterways will have responsibility for integrated planning.

The government recognises that the division of responsibilities between Melbourne Water and metropolitan municipalities for urban drainage need to be rationalised. This matter is currently under review.

The Melbourne Water Corporation will retain the ownership of all dams, sewage treatment works and other headworks. The bill provides that the three new state-owned companies and Melbourne Parks and Waterways will have other Melbourne Water Corporation assets transferred to them.

The Water Act continues to provide for the integrated management of the water resource and defines the bulk entitlement to water for the licensee. For areas of the state which are not subject to a licence, the Water Act continues as the relevant legislation. Licences will eventually be issued throughout the state.

Some special powers are necessary to enable each licensee to perform its functions. These powers, such as entry to land, etcetera, have been kept to a minimum, and licensees will be fully accountable for their actions. To ensure that licensees comply with their obligations and to maintain a fair pricing structure for consumers, the supervision of licensees becomes the responsibility of the Office of the Regulator-General. In accordance with the Office of the Regulator-General Act 1994, competitive market conduct will be fostered and possible misuse of monopoly power prevented.

Under the Water Act 1989, flood plain management functions are vested in declared authorities including the Melbourne Water Corporation. Under the bill all flood plain management functions previously vested in the Melbourne Water Corporation will be vested in the Minister for Natural Resources.

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While the minister and the department will oversee the regulatory and policy aspects, the bill enables operational (including technical) matters to be delegated to service delivery agencies.

The division of assets and activities between Melbourne Parks and Waterways, the Melbourne Water Corporation and the state-owned companies will be effected by administrative processes. It will be necessary for some staff to transfer from the Melbourne Water Corporation to Melbourne Parks and Waterways and to the three state-owned companies. Provision is made for such officers and employees to remain with the existing superannuation fund.

Consequential amendments to other legislation have also been necessary. The Melbourne Water Corporation formerly made certain payments out of the Metropolitan Improvement Fund in connection with the Melbourne Underground Rail Loop Authority.

These payments will no longer be made, and the Transport Act 1983 has been appropriately amended.

Part 1 of the bill sets out preliminary provisions. Part 2 establishes a licensing system for the provision of water, sewerage and drainage services throughout the state. The water industry is declared to be a regulated industry for the purposes of the Office

of the Regulator-General Act 1994. There are also provisions creating customer contracts that entitle all customers to definitive and enforceable legal rights with respect to the cost and quality of the services provided.

Licensees are authorised to charge fees for the various services -- initially for water and sewerage usage -- but those fees will not be a charge on land.

Rates, which will continue to be levied by the Melbourne Water Corporation, pay for services including water catchment, bulk distribution, water treatment, sewage treatment and reticulation. All fees and rates will be collected by the licensees to simplify customer payment. This will create uniformity with other providers of essential services. Existing exemptions from certain fees have been preserved. Inspectors will be appointed to monitor technical aspects of a licensee's business. These controls will be in addition to existing monitoring programs operated by the Environment Protection Agency and the Department of Health and Community Services.

Part 3 of the bill covers the functions, obligations and powers of licensees. The licensees will be required to manage, operate and maintain the relevant systems of works as well as to plan for future needs, conduct appropriate research and educate the community.

To enable licensees to carry out their allotted functions, powers are provided to them to administer Crown land, enter land for the purpose of reading meters, close roads, control connections to their works, require works to be carried out and, in the case of sewerage works, compel connections. Licensees will be legally liable to compensate any person who suffers damage as a direct result of their conduct, including damage resulting from flows of water caused by a licensee's negligence. Licensees will be required to keep separate accounting records relating to their license functions and must make regular reports to the responsible minister, the Regulator-General and their customers.

Part 4 of the bill provides for the establishment of Melbourne Parks and Waterways (MPW) as a statutory corporation. MPW is constituted to acquire, hold and manage all parks and waterways in the Melbourne metropolitan area for the purposes of conservation, recreation, leisure, tourism and navigation.

Part 5 of the bill deals with the transfer of assets, liabilities and staff from the Melbourne Water Corporation to the retail licensees. Such transfers will be at the minister's direction and subject to an allocation statement. Part 6 of the bill contains general administrative provisions relating to the making of regulations and the service of documents.

Part 7 of the bill contains numerous amendments to the Water Act 1989 and generally extends the operation of the provisions of the Water Act to include persons holding licences and Melbourne Parks and Waterways. Part 8 of the bill effects amendments to the Melbourne and Metropolitan Board of Works Act 1958. Part 9 amends certain other acts.

I commend the bill to the house.

Debate adjourned on motion of Mr HAMILTON (Morwell).

Debate adjourned until Wednesday, 30 November.