



# Towards urban water reform: a discussion paper

Commission Research Paper

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Alan Johnston

Assistant Commissioner



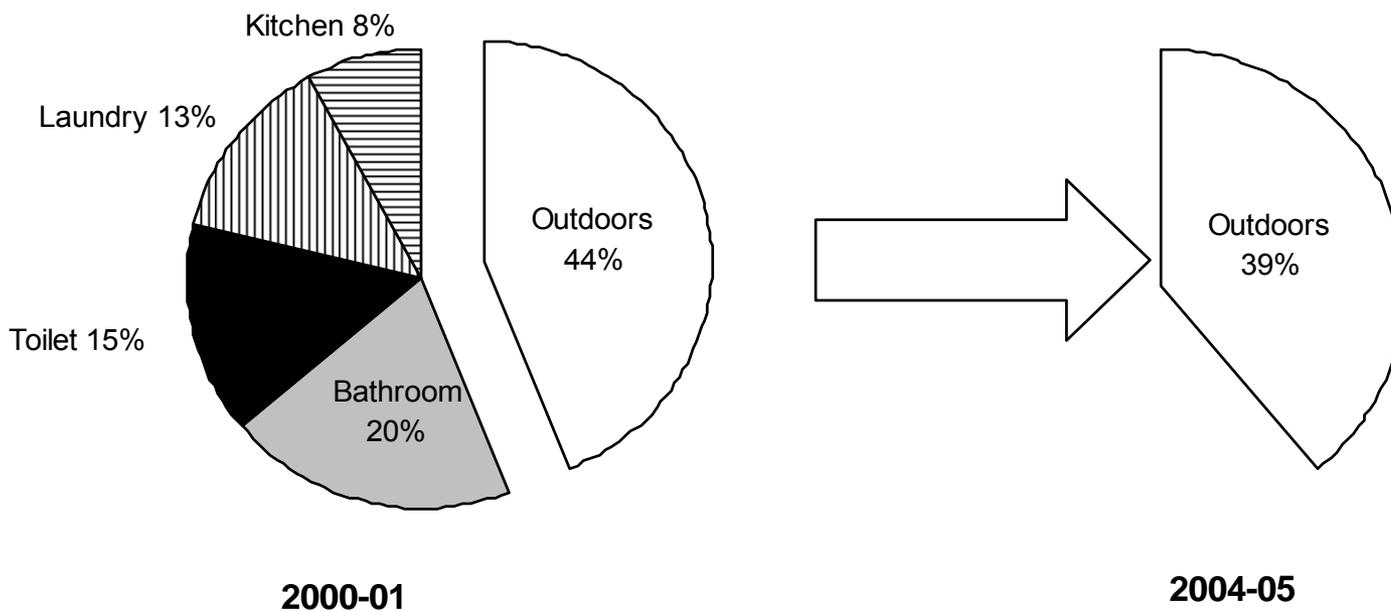
# Where we are today

- 80% of city dwellers subject to water restrictions
- Not just low rainfall, but also policy choices
- There is no urban water market
  - *Urban water provision is centralised*
  - *Charges don't vary in response to scarcity*
  - *Urban and rural water are functionally separate*

# Impact of water restrictions

- Impacts on business and the community, but especially households

Water use in Australian households pre- and post restrictions





# Hidden cost of restrictions

- Estimate for Sydney — \$150 per household
- But this excludes MANY costs
- Annual cost to Australian households likely to be in \$billions



# Improving pricing

- Scarcity-based pricing to ration demand
- Prices could  $\uparrow$  as dam levels  $\downarrow$
- During a long drought prices might  $\uparrow$  gradually over several years and then  $\downarrow$  during a season of high rains
- Need to address metering and billing

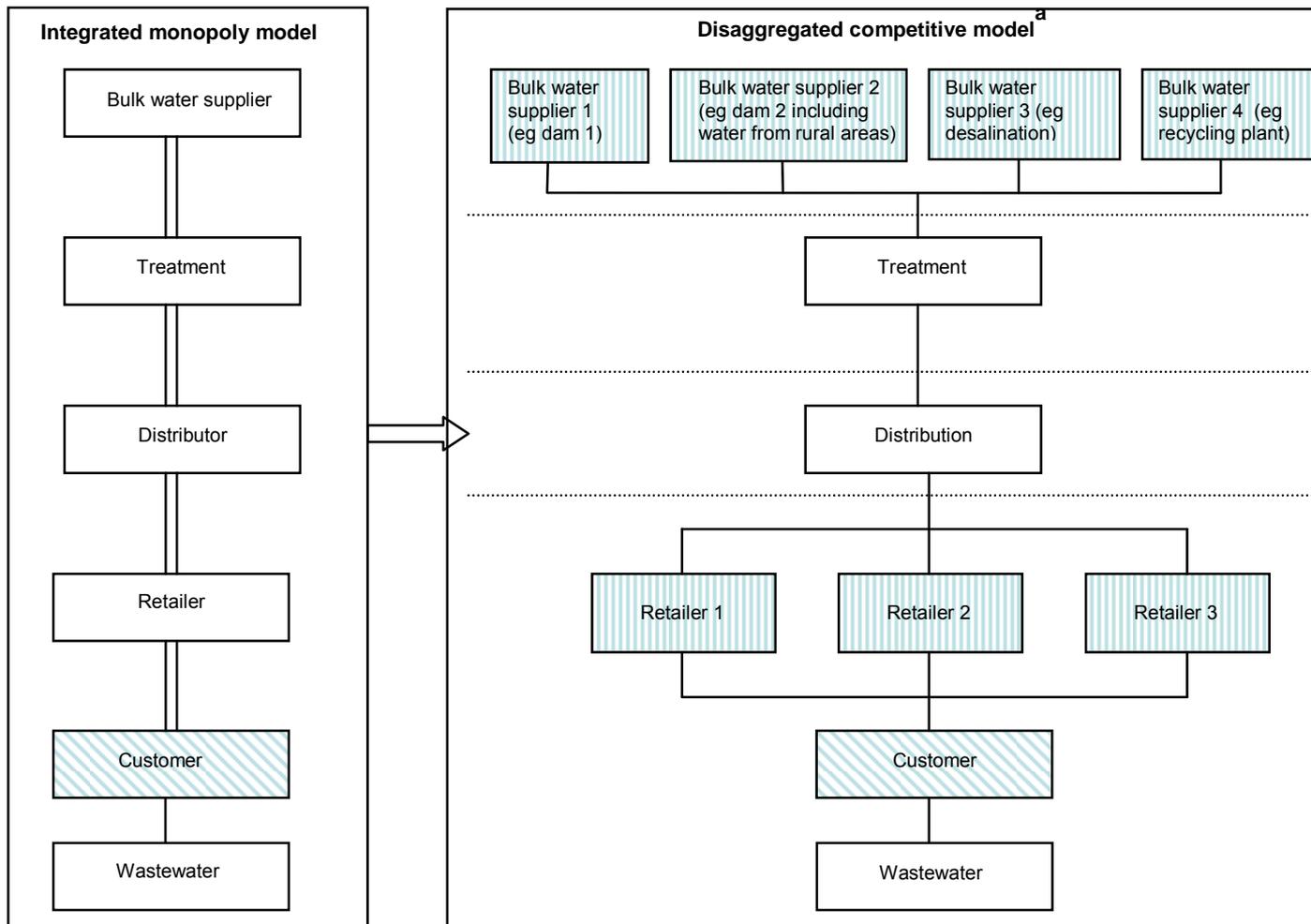


# Rural-urban water trading

- Of total water consumption, agriculture takes around 60–70% and households around 10%
- Small diversions from rural use could make major (and relatively low-cost) contributions to urban supplementation
- Trade-offs: coverage and transactions costs



# Structural reform





# Potential payoffs from reform

- Revealed costs, prices and valuations of water security
- Better informed and more timely investment signals
- Competitive pressures leading firms to perform better
- Mutually beneficial market trades permitting water resources to go to higher valued uses
- ‘Democratisation’ of water use



# What about equity?

- Low-income households spend less than \$1 per day on urban water
- Restrictions on water use are indiscriminate
  - *Poorer residents can't afford alternatives (e.g. re-use systems) to mitigate the damage from restrictions*
- Better to use targeted measures



# The challenge

- The *direction* for reform seems clear
- But no ‘off the shelf’ solutions
- A reform agenda would be most effectively advanced through a comprehensive public review
- COAG’s NWI could be the vehicle to reignite momentum for urban water reform



# The discussion paper

- Available at: [www.pc.gov.au](http://www.pc.gov.au)
- Go to 'What's new'