



Competitive Neutrality Complaint Investigation

Final report

Plumbing services provided by

South East Water Limited

21 December 2010

Victorian Competition and Efficiency Commission

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Key points

- South East Water Limited (SEWL) is one of Melbourne's three state-owned metropolitan water retailers. SEWL is a limited liability company established under the Commonwealth *Corporations Act 2001*, and is licensed and operates under the Victorian Government's *Water Industry Act 1994*.
- SEWL serves over 1.4 million people (representing over 600 000 households and businesses) via an integrated network of water, sewerage and recycled water assets. SEWL's core statutory function is to operate and maintain its water and sewerage assets but it is also involved in commercial ventures:
 - 'us'-Utility Services (a strategic alliance with Thiess Services and Siemens Ltd)
 - South East Water Priority Plumbing (SEWPP), which provides a commercial plumbing service.
- In February 2010, the VCEC received a complaint from a private plumbing business alleging that SEWL's commercial plumbing activities were not conducted in compliance with the competitive neutrality policy. The complaint relates to non-price related advantages that the complainant believes result from SEWL conducting its statutory functions while also operating a commercial plumbing service.
- The VCEC investigated the complaint, and found that:
 - SEWL, through SEWPP, operates a commercial plumbing business that competes with independent plumbers for the provision of general plumbing services
 - this business is subject to Victoria's competitive neutrality policy
 - SEWL has implemented measures to help it achieve what it believes to be a competitively neutral business in operating SEWPP, based on a report it commissioned in 2002 that documented the competitive neutrality implications of the SEWPP business
 - the measures implemented by SEWL do not fully satisfy what is necessary to achieve competitive neutrality in relation to the SEWPP plumbing operation.
- The VCEC has made recommendations in this report to assist SEWL to implement correctly the competitive neutrality policy in relation to the issues raised by the complainant. The VCEC recommends that, to enhance neutrality of the information provided, SEWL review, and where appropriate, change:
 - the format and wording of the Defective Water Pipes or Fittings notice;
 - the SEWL call centre plumbing services processes and scripts;
 - the SEWL website where reference is made to SEWPP.

1 Competitive neutrality policy

The *Competitive Neutrality Policy Victoria* was released in October 2000. The policy integrates rigorous financial principles with a strong public interest test and transparency in decision-making.

The objective of competitive neutrality (CN) is set out in Clause 3(1) of the *Competition Principles Agreement* as:

... the elimination of resource allocation distortions arising out of the public ownership of entities engaged in significant business activities: Government business should not enjoy any net competitive advantage simply as a result of their public sector ownership. These principles only apply to the business activities of publicly owned entities, not to the non-business, non-profit activities of these entities. (COAG 1995)

Competitive neutrality is achieved by removing unfair competitive advantages that result solely from government ownership of a business activity (Government of Victoria 2000).

In Victoria, it is the responsibility of government agencies and councils to determine if their business activities fall within the scope of competitive neutrality policy. If the policy does apply, then the government agency or council is required to put in place CN measures for its business activities if it is in the public interest to do so. The CN policy provides three measures for implementing competitive neutrality—corporatisation, commercialisation, and full cost-reflective pricing (appendix 1 provides a further description of these measures).

CN policy recognises that it is common for private businesses to coexist with government business and that these do not always compete on equal terms: ‘Such inequalities arise from a variety of circumstances and it is the goal of competitive neutrality policy to offset these where appropriate’ (Government of Victoria 2000, p. 4). The policy states further:

Competitive neutrality measures will be required where the expected benefits of introducing such measures outweigh the costs, and where there are net benefits from implementing such measures having regard to public policy objectives other than competitive neutrality. (Government of Victoria 2000, p. 6)

Under CN policy, prices should reflect the full cost of producing a good or service, after any adjustments for competitive advantages or disadvantages associated with government ownership. There should also be equalisation of non-price related competitive advantages.

Non-price advantages largely emanate from conflicts of interest concerning the institutional arrangement of a government agency. For example, in relation to a government-owned statutory monopoly, non-price related advantages might include government business administrators having access to information used in performing statutory functions to which their private sector competitors do not have access. Such information might be used to make more informed business decisions compared with private sector competitors. Other non-price advantages include the government business having less stringent procedural requirements compared with their private sector competitors, or the use of statutory resources to promote the commercial business.

Government businesses within the scope of CN policy are required to undertake and document the steps they have taken to ensure that they are operating consistently with the policy, and make this documentation public on request (Government of Victoria 2000, p. 11).

Should competitive neutrality measures jeopardise other public policy objectives, options for achieving all policy objectives, including competitive neutrality, must be explored through a fully documented public interest test process.

The CN policy does not preclude government-owned businesses from entering into alliances with non-government businesses. On this, the CN policy states:

Competitive neutrality policy measures are designed to achieve a fair market environment without interfering with the innate differences in size, assets, skills and organisational culture which are inherent in the economy. Differences in workforce skills, equipment and managerial competence, which contribute to differing efficiency across organisations, are not the concern of competitive neutrality policy. (Government of Victoria 2000, p. 4)

This last point is important in the context of the complaint because the complainant raised concerns regarding SEWL's strategic alliance with non-government businesses.

1.1 Role of the VCEC in the CN process

The Victorian Competition and Efficiency Commission (VCEC) carries out three complementary functions:

- (1) undertaking inquiries into matters referred to it by the Victorian Government
- (2) reviewing and advising on the economic impact of significant new legislation and regulation
- (3) operating Victoria's Competitive Neutrality Unit.

The CN policy states:

It is the role of the Complaints Unit [now located within the VCEC] to determine the extent to which an agency's actions comply or do not comply with competitive neutrality policy. (Government of Victoria 2000, p. 12)

The VCEC has undertaken this investigation consistent with CN policy, and the *Competitive Neutrality Guide to Implementation* ("Implementation guide") (DTF 2000). The VCEC has no authority to investigate other concerns of complainants, for example those relating to the *Trade Practices Act 1974*, which is under Commonwealth jurisdiction.¹

In addition, the VCEC has no mandate to investigate, consider or recommend compensation. Compliance with competitive neutrality policy is about achieving competitive neutrality or justifying departure from competitive neutrality, and the VCEC makes recommendations to achieve this end only. VCEC reports are not intended to form the basis of, or contribute to, compensation claims.

1.2 Investigation methodology

The VCEC received the complaint on 2 February 2010. After considering the facts and issues, on 24 March 2010 the VCEC wrote to the relevant parties to advise that it had received and accepted a complaint for investigation, and requested that SEWL respond to a range of questions by 16 April. On 12 April, representatives from the VCEC met with the General Manager, Legal and Audit of SEWL, and the General Manager and Marketing Manager of Utility Services to discuss the complaint and clarify what information would be required to progress the investigation. SEWL sought an extension of time to collate this information. An extension until 23 April was granted. SEWL provided a response on 23 April. The VCEC subsequently sought further information from SEWL, as required, to clarify specific aspects related to the allegations.

The VCEC issued this confidential draft report to the complainant, SEWL and the Department of Sustainability and Environment on 17 September 2010 for their consideration. In response the VCEC received submissions from the complainant and SEWL that required it to investigate several issues in greater detail before preparing the final report.

2 Scope of complaint

On 2 February 2010, the VCEC received a competitive neutrality complaint directed at the commercial plumbing activities operated by South East Water

¹ *Competition Policy Reform (Victoria) Act 1995*, see for example Division 4 – Offences.

Limited (SEWL). The complaint was lodged by the owner of a private plumbing business. The complainant, who requested that their identity be kept confidential, alleged that SEWL's commercial plumbing businesses are not complying with the CN policy.

The specific allegations relating to SEWL's plumbing activities are as follows.

- ***SEWL procedures.*** Some procedures inappropriately encourage SEWL customers to use SEWL commercial plumbing operations for non-regulatory works for which independent plumbers compete. The concern relates to two specific issues: SEWL employees not advising customers of their plumbing options; and the issuing of notices that favour the use of SEWPP over independent plumbers. (This allegation is discussed in section 5.1.)
- ***Business promotion.*** SEWL cross-promotes its commercial services through its website, water rates notices and uniforms worn by contracted parties, which are forms of advertising that are not available to its competitors. (This allegation is discussed in section 5.2.)
- ***Procedures.*** SEWL commercial plumbing activities are exempt from processes that their competitors are required to follow—for example, the need to obtain 'road opening permits' and a requirement to call 'dial-before-dig' to obtain access to underground utilities asset maps. (This allegation is discussed in section 5.3.)
- ***Use of data/information.*** It is alleged that SEWL shares data and information obtained through its regulatory function with its commercial plumbing businesses and that such information is not readily available to SEWL's competitors. (This allegation is discussed in section 5.4.)
- ***Use of SEWL assets.*** Government-owned SEWL assets and expensive specialised equipment are available to SEWL's commercial arms at no cost. (This allegation is discussed in section 5.5.)

The complainant also expressed concern that the strategic alliance between SEWL, Thiess Services Ltd and Siemens Ltd, which led to the establishment of 'us'-Utility Services in 2005, creates unfair advantages for SEWL's plumbing operations. This allegation is discussed in section 5.6.

In its response to the allegations made against it, SEWL acknowledged that some of its plumbing activities are commercial in nature, specifically the business operating under the name South East Water Priority Plumbing (SEWPP). SEWL advised the VCEC that all efforts have been made by SEWL to ensure its commercial business activities comply with CN policy, and provided a 2002 report documenting a CN assessment of the SEWPP operation.

The VCEC examined each of the issues raised by the complainant to establish whether appropriate measures were in place to equalise any potential competitive

advantages, and to recommend which measures should apply if there is any competitive advantage.

3 Background

The purpose of this section is to consider the structure of SEWL and the market, or markets, in which it operates plumbing activities to help to identify those activities that are within the scope of CN policy.

3.1 South East Water Ltd

SEWL is one of Melbourne's three state-owned metropolitan water retailers that began operation with a licence issued under the *Water Industry Act 1994* (the Act) on 1 January 1995. Although it is owned by the State Government, SEWL operates under the *Corporations Act 2001* (Cth) and, as a result, has increased private sector equivalence (for example, applying a tax equivalence regime).

The roles of Melbourne's metropolitan water retailers, including SEWL, are specified in section 80 of the Act.

80. Functions of licensee

A licensee has the following functions in relation to the area or areas specified in its licence—

- (a) to provide, manage, operate and protect water supply systems;
- (b) to identify community needs relating to water supply and to plan for the future needs of the community relating to water supply;
- (c) to develop and implement programs for the conservation and efficient use of water;
- (d) to investigate, promote and conduct research into any matter related to its functions, powers and duties in relation to water supply;
- (e) to educate the community about any aspect of water supply.

Thus, SEWL has a statutory role to manage and maintain the government's water and sewerage networks; and to provide water, sewerage and recycled water services to residential, industrial and commercial customers. As at 30 June 2008, SEWL managed 8585 kilometres of water supply mains, 8033 kilometres of sewer mains, 78 water pump stations, and 237 sewage pump stations (SEWL 2009(a), p. 8). Its infrastructure and assets were valued at around \$1.4 billion, and the operations, maintenance, capital construction, billing, strategic planning and corporate functions were undertaken by approximately 510 full-time equivalent employees (SEWL 2009(a), p. 8).

SEWL's service area covers approximately 3640 square kilometres from Port Melbourne to Portsea and from Mordialloc to 40 kilometres of Berwick (ACG, 2002, p. 2). SEWL serves over 1.4 million people (representing over 600 000 households and businesses) via its integrated network of water, sewerage and recycled water assets (SEWL 2007, p. 1).

SEWL has outlined in its Corporate Plan a three-point strategic vision (2015 vision), which is to be achieved through pursuing three key strategic directions: providing customer water solutions; delivering efficiency and growth; and delivering improved social and environmental outcomes (appendix 2).

SEWL's stated objectives within this vision include: to generate efficiencies in the provision of its statutory obligations (to deliver water and sewer services); and, where the opportunity exists, to grow its commercial business activities. The VCEC's investigation relates only to SEWL's commercial plumbing business activities that are the subject of the complaint.

It is not always obvious where SEWL's statutory functions finish, and where its commercial functions begin, and where possible CN tensions may arise from this. This issue is considered further in section 3.5.

For example, the long duration of the drought in Victoria has contributed to a reduction in Victoria's water supply, causing the government and government agencies to implement a range of initiatives to promote efficient water use. While the objective of any efficient business is to increase sales to maximise profit, SEWL, as a government entity, has a role to promote government policy in relation to achieving efficient water usage. Accordingly, some of the efficient water programs or activities, delivered through SEWL-sponsored plumbing services, may appear to be business activities that compete with independent plumbers.

3.2 'us'-Utility Services

SEWL, Thiess Services Ltd and Siemens Ltd formed a strategic alliance in April 2005 called 'us'-Utility Services. The objective of 'us'-Utility Services is to optimise the delivery of SEWL's maintenance and capital works budget through delivering enhanced cost efficiencies and service levels across SEWL's operations. However, the relationship between SEWL, Thiess Services and Siemens had its origins in 1995, when SEWL contracted Thiess Services and Siemens to help it deliver a range of civil, mechanical and electrical maintenance works. The contracts were awarded on a competitive basis.

By 2005, SEWL had established that its objectives would be best met through an alliance structure in terms of:

- alignment of participant objectives ...

- enhanced commercial focus arising from the private sector partners bringing strong external commercial experience, drive and discipline; and
- a strengthened focus on risk management via shared, collective identification and management of risks across the business. (Thiess Services 2007, p. 5)

SEWL implemented a competitive tender process² before deciding to establish the **'us'**-Utility Services Alliance between SEWL, Thiess Services and Siemens, which commenced operations in April 2005 (SEWL 2007, p. 26). The structural change relative to the former 'partnering' arrangement enabled efficiencies to be achieved through the integration, rationalisation and elimination of a number of functions that were common to, and duplicated within, each organisation (Thiess Services 2007, p. 8). Further, the Alliance Agreement includes a clause allowing the Alliance, through **'us'**-Utility Services, to deliver 'External (or 'Commercial') Works' (SEWL 2010(b), p. 3).

Currently, **'us'**-Utility Services comprises approximately 600 employees and subcontractors drawn from their respective parent companies (SEWL 2007, p. 26).

It is responsible for delivering activities and functions, including:

- civil, mechanical and electrical operations and maintenance
- faults and emergency communications centre services
- capital works
- water and sewer renewals
- finance and administration.

The Alliance also manages the commercial plumbing businesses South East Water Priority Plumbing (SEWPP) and Ultra Plumbing.

SEWL advised the VCEC that Ultra Plumbing is owned by Thiess Services and that it provides mostly commercial and industrial plumbing activities outside SEWL's network area (SEWL 2010(b), p. 3). Although Ultra Plumbing, like SEWPP, is managed by **'us'**-Utility Services, it falls outside the scope of the Government's CN policy because it is not government owned.

3.3 South East Water Priority Plumbing (SEWPP)

SEWPP was established in 2000 'to meet the needs of South East Water residential customers regarding a premium, reliable general plumbing service' (SEWL 2010(b), p. 2). The geographic service area of SEWPP is restricted to the

² Eight bids were received and evaluated by SEWL. A Thiess Services/Siemens consortium was recommended to and accepted by the SEWL Board. (Thiess Services 2007, p. 6)

SEWL customer service area, across the south-eastern suburbs of Melbourne and the Mornington Peninsula.

SEWPP offers 24 hour-a-day, 7 day-a-week, emergency and general plumbing services for water and sewerage systems. The plumbing services and products offered are the same as those that independent plumbers would be expected to provide, including:

- clearance of sewer blockages
- cold water services repaired
- replacement of burst hot water services
- new sewerage connections
- leak detection services. (SEWL 2010(c))

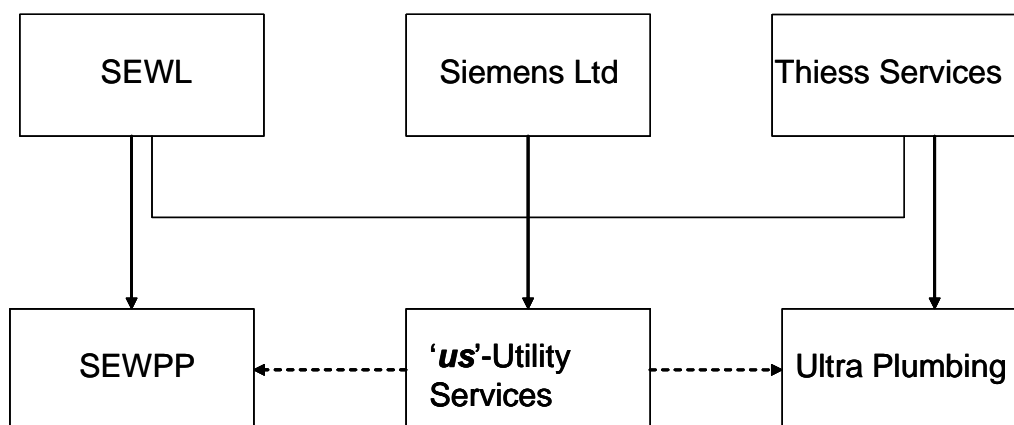
All the plumbing services provided by SEWPP are delivered by sub-contracted, independent plumbers. In late 2003, SEWPP advertised for expressions of interest from suitable plumbing contractors, with several plumbers subsequently interviewed and chosen to provide plumbing services on a sub-contractor basis for SEWPP. SEWL advised that any plumber is able, at any time, to express interest in becoming a sub-contractor to SEWPP. However, workload can vary significantly and there is no guarantee of work volume for any plumber. At present, SEWPP has sub-contracted 22 plumbing organisations (SEWL, 2010(d), 1 July 2010).

Although no SEWL employees are engaged in the direct provision of SEWPP plumbing services, a total of seven SEWL employees are engaged on a full-time basis to provide managerial, supervisory, administrative and works coordination roles. One Thiess Services employee is engaged on a full-time basis in SEWPP within the management/administration team. This team was originally located at the SEWL head office in Heatherton before relocating to the head office of '*us*'-Utility Services in Lynbrook in 2005.

The time spent by SEWL (and Thiess Services) staff engaged in SEWPP-related work is recorded and the costs apportioned to SEWPP.

3.4 Key relationships

The relationship between SEWL, Thiess Services and Siemens is illustrated in the diagram below. SEWL, Thiess Services and Siemens, through creating a strategic alliance, established '*us*'-Utility Services, which in turn manages Ultra Plumbing and SEWPP. SEWPP was created by and is part of SEWL and, therefore, is government owned. Ultra Plumbing was created by '*us*'-Utility Services, as a business unit of Thiess Services and, therefore, is not government owned.



3.5 The market for plumbing services

As discussed in section 3.3, SEWPP provides a range of general plumbing services. SEWPP competes with independent plumbers in the market for general plumbing services provided to households and businesses.

The SEWL Customer Charter 2009 outlines the general rules regarding the responsibility for maintaining water and sewer infrastructure (appendix 3). This indicates that there are effectively two markets relating to this infrastructure.

- The maintenance of water and sewerage assets, for which SEWL is solely responsible (referred to in this report as the ‘statutory market’) and which is, accordingly, closed to independent plumbers. Delivery of this service is managed and provided by ‘*us*’-Utility Services on behalf of SEWL.
- The maintenance and repair of water pipes and infrastructure that are located on private property, for which the property owner is responsible. Demand by property owners for plumbing services to maintain these assets creates a plumbing market in which independent plumbers compete. SEWL’s commercial plumbing business, SEWPP, competes in this ‘general plumbing market’.

4 Does competitive neutrality policy apply?

The threshold issue in any CN investigation is establishing whether the government activity subject to the complaint is a significant business as defined by the CN policy. The current complaint relates to alleged advantages that SEWL has in the operation of its commercial plumbing business (SEWPP).

The CN policy requires that:

An agency or local government should document its determination as to whether a business activity is, or is not, within the scope of the Policy. This documentation should be defensible and will be subject to scrutiny in the event that an investigation is triggered by a complaint. (Government of Victoria 2000, p. 5)

Consistent with this requirement, in 2002, SEWL contracted the Allen Consulting Group (ACG) to prepare a report, *Competitive Neutrality Concerns: Provision of Plumbing Services by South East Water Limited*. The report concluded:

CN Policy applies to the provision of plumbing services by SEWPP for two reasons. First, the contract for plumbing services constitutes the provision of a discrete commercial service, and thus is a business activity in the sense implied by CN Policy. Second, the activity is ‘significant’ insofar as:

- The size of the business is relatively large in relation to the size of competing businesses: and
- The costs of the plumbing services are predominately met by users. (ACG 2002, p. 5)

Since the ACG report was prepared, SEWPP’s management structure has changed, with **‘us’**-Utility Services becoming responsible for managing SEWPP. The VCEC understands that no further review of SEWL’s plumbing activities has been made since 2002.

4.1 Is SEWPP a significant business?

The VCEC undertook its own assessment of whether SEWPP is a significant business and, therefore, subject to CN policy.

For the purposes of CN policy, a range of factors needs to be taken into account in determining whether a government activity is a business (Government of Victoria 2000; The Treasury 2004). These include whether:

- the activities of the entity result in the sale of a good or service
- the costs of providing the goods or services by the entity are predominantly met by users
- there is an actual or potential competitor
- the managers of the activity have a degree of independence in relation to the production or supply of the good or service and the price at which it is provided.

Applying these factors to SEWPP, the VCEC has concluded that the SEWPP plumbing activity is a business in the context of the CN policy.

- SEWPP offers a range of general plumbing services—such as installing hot water services, attending to blocked sewers and other general plumbing services in exchange for a fee.
- SEWPP is operated to fully recover its costs from users.
- SEWPP competes with private plumbers whose main trade and business is to provide general plumbing services to the community.
- SEWPP’s key business parameters, including its prices, are not regulated by government.

A further necessary condition for the SEWPP plumbing business to be subject to competitive neutrality is that the business is significant in the context of the market. The CN policy outlines the factors which might be taken into account in determining whether a business is significant (Government of Victoria 2000, p. 5). They include:

- the size of the relevant business activity in relation to the size of the relevant market
- the influence or competitive impact of the business activity in the relevant market.

Applying these factors to SEWPP, the VCEC has concluded that SEWPP’s plumbing business is significant in the context of CN policy.

- The region in which SEWPP operates is limited to the geographic area of SEWLs water and sewerage network area. It is understood that it is not SEWL’s intention to grow the SEWPP plumbing business outside SEWL’s network area. However, based on information provided by SEWL, the scale of SEWPP’s operation appears to be greater than what small- to medium-scale plumbing businesses would be able to provide.
- While not conclusive, it is reasonable to assume that, given its potential scale of operation within the SEWL network area, SEWPP has—or has the potential to have—a competitive impact on the business activities of independent plumbers.

Thus the VCEC’s conclusion is that SEWPP’s plumbing activity is a significant business and is subject to CN policy.

5 Assessment of the complaint

This section summarises SEWL’s responses to the concerns raised by the complainant, and the VCEC’s findings as to whether SEWL’s commercial

plumbing service (specifically SEWPP) has a competitive advantage because of its government ownership. Where the VCEC has found that SEWPP might have such an advantage, the VCEC has recommended actions that SEWL should consider to help it implement CN policy more effectively.

5.1 Procedures relating to customer water pipe maintenance queries

The complainant raised two concerns in relation to procedures following detection of leaks by SEWL field crews.

The first was an allegation that SEWL field crews, after identifying the location of a damaged pipe on private property of a SEWL customer, offer to repair the damaged pipe at a cost without advising the SEWL customer that they may use their own plumber to repair the damage.

If this were the case, it would imply a breach of competitive neutrality because field crews would be using the knowledge of there being a damaged pipe on a private property, gained through their statutory (government) function, to provide a plumbing service that an independent plumber might also be able to perform.

SEWL refuted this allegation and advised the VCEC that the field crews undertake repair and maintenance work only where the damage is found within SEWL's zone of responsibility, and that, 'Where a leak is found to be on the [SEWL] customer side of the meter by the Water Operations group, a 'Defective Water Pipes or Fittings' form (known as a 'defect notice' or 'red notice') is issued'. SEWL further advised the VCEC that:

- a) '**us**'—Utility Services Field Crews do not offer to undertake repair work on the customer side of the meter.
- b) '**us**'—Utility Services Field crews do not offer to call SEWPP or promote SEWPP in any way.
- c) '**us**'—Utility Services field crews are not the same plumbers as those who are subcontracted to provide SEWPP services. (SEWL 2010(d))

The second concern raised by the complainant relates to the information contained on, and format of, the defect notice itself. (A copy of a defect notice is provided in appendix 4).

The defect notice advises the property owner that defective water pipes and/or fittings that service their property have been found, and that it is the owner's responsibility to maintain and repair these. Depending on its severity, the SEWL field crew will determine how long, within the period prescribed by the Water Industry Act, the property owner has to repair the defect. The period prescribed

to repair a defect ranges from 24 hours to 7 days. The notice states ‘failure to repair within the prescribed period will result in disconnection of supply’ and that ‘a reconnection fee will be charged to the customer should this service be disconnected.’ It further states that:

All repairs are to be carried out by a licensed plumber. You can select a plumber of your choice or alternatively South East Water Limited can provide licensed plumbers to carry out these works for you. (SEWL, Defect Notice, 2010)

Immediately beneath this, the SEWL call centre number 13 2812 is provided in large, bold print followed by the advice, ‘For Assistance 24 hours a day’. This number is not the same as the SEWPP telephone number, which is 1300 760 306. However, SEWL has advised the VCEC that the plumbing services call centre is the same call centre that customers reach by calling SEWPP on the 1300 number.

It is the VCEC’s view that the urgency of the issue (the need to repair damaged pipes) and consequence of not addressing it (disconnection of water) justifies the need to convey information to SEWL customers who receive such notices. However, it is important that information be conveyed in a way that helps SEWL customers to make informed decisions regarding plumbing options to repair defective pipes but does not either implicitly or explicitly direct the SEWL customer to the government service provider over its competitors.

Judgement is needed to determine what constitutes an appropriate balance between providing general or neutral advice and material that might be perceived as promoting, or leading a customer to select, a specific service provider. The VCEC considered whether the balance of information is appropriate. In addition to the wording and format of the defect notice, the process that follows a SEWL customer’s phone call to the 13 2812 number and the advice given to SEWL customers are also important determinants as to whether or not SEWPP is advantaged.

5.1.1 Defect notice

The information on the defect notice relating to SEWL’s service is very prominently positioned. In contrast with the rest of the notice, and specifically the advice that customers can seek another plumber, the 13 2812 contact number is large and bold, and presented in a way in which a commercial service provider might promote itself.

It is the VCEC’s view that the defect notice should contain information to help customers make informed decisions regarding their plumbing solutions. However, the notice—which is issued by SEWL as part of its statutory role—should not provide this information in a way that could reasonably be seen as

promoting SEWL's commercial plumbing service (SEWPP), or lead to SEWPP gaining an advantage over independent plumbing service providers.

One way to assess the extent to which the notice might, in practice, be promoting SEWL's plumbing service is by comparing the number of jobs that SEWPP completes in response to defect notices with the number of defect notices issued by SEWL. Data provided to the VCEC indicate that, between January and October 2010, SEWPP accounted for about two per cent of the total jobs completed in response to defect notices issued by SEWL (SEWL 2010 (e))³. This relatively low proportion of notice-related jobs completed by SEWPP suggests that the defect notice may not, in practice, have a strong promotional impact. The figure is, however, based on limited data.

The VCEC is of the view that given the prominent positioning and formatting of SEWL's contact information on the defect notice, the *potential* remains for the notice to promote SEWPP over its competitors. The VCEC has made a recommendation to help SEWL address this issue.

Recommendation One

The VCEC recommends that SEWL review the format and wording of the Defective Water Pipes or Fittings notice (Defect Notice) to enhance neutrality of the information provided.

The VCEC considers that the notice needs to include sufficient information to enable SEWL customers to take the necessary steps to have the damaged pipe repaired without implicitly or explicitly directing SEWL customers to a particular service provider. At present, the very prominent positioning, font size and style of the SEWL contact number could reasonably be seen as suggesting that SEWL customers should in the first instance call SEWL (despite the notice advising that SEWL customers can select a plumber of their choice).

5.1.2 SEWL customer call centre

A SEWL customer who telephones the 13 2812 SEWL customer call centre number accesses a five-option service menu. There is no specific menu selection for 'defect notice inquiry' but there is one for 'plumbing services enquiry', which appears to be the logical selection for SEWL customers responding to a defect notice.

³ This calculation was made by combining data kept by SEWL on the number of defect notices it issued with data kept separately by SEWPP on the number of jobs it completed in response to SEWL defect notices.

It is the VCEC's view that the SEWL customer who telephones the 13 2812 number and speaks to a plumbing services call centre staff member might reasonably expect to receive general plumbing advice regarding their plumbing solution options. The call centre staff should provide neutral information—choice options, including, the customer's own plumber, other independent plumbers (also advising that other independent plumbers offer 24 hour-a-day assistance), as well as the commercial plumbing service offered by SEWL (that is, SEWPP).

It can reasonably be expected that some SEWL customers will have a preference, and will have decided, to use their water company's plumbing service before calling the SEWL call centre contact number and, in turn, will expect to engage a plumber when they do call. The VCEC considers that, given SEWL's role in issuing defect notices and the contact details included in those notices, to ensure competitive neutrality the SEWL plumbing services call centre needs to first provide neutral, or general, plumbing advice as to options, and, only arrange a SEWPP plumber to repair the defect if the caller indicates that they wish to use the SEWL plumbing service.

Following discussions between the VCEC and SEWL, SEWL advised that 'we [SEWL] will now instruct our call centre staff to ask each caller if they are calling as a result of receiving a red notice. This way, we can ensure that, ... , all red notice callers will be given the "choice" option again' (SEWL 2010(f)). The reiteration of plumbing option advice to SEWL customers may assist customers in making more informed decisions regarding plumbing solutions.

The VCEC acknowledges that the proposed change in the SEWL call centre instruction, introduces a further discipline to re-iterate the choice options available to a customer. The VCEC has, nonetheless, made a recommendation with regard to the implementation of this proposal.

Recommendation Two

The VCEC recommends that SEWL review its call centre plumbing services processes and scripts (for advising customers) to ensure that the information provided to SEWL customers regarding general plumbing needs is neutral. Neutrality requires that SEWPP service and sales advice only be given after general plumbing solution information has been provided and where the SEWL customer has asked specifically for further information regarding SEWPP services.

The VCEC will ask SEWL to provide a summary of its review and copies of call centre processes and scripts relating to plumbing services three months from the issue date of the final investigation report.

5.2 Cross-promotion of services

The complainant alleged that SEWL promotes its commercial plumbing service through the use of SEWL water rates notices, information available on the SEWL website and uniforms worn by contracted plumbers. The CN issue in this instance is that the opportunity available to SEWL to cross-promote its commercial plumbing services through these means is a form of advertising not available to competitors.

In response to the allegation, SEWL advised the VCEC:

South East Water does not cross promote any specific commercial plumbing services provided by Ultra Plumbing or SEWPP through water rate notices or its website.

We believe that to suggest that SEWPP or Ultra Plumbing are gaining unfair advantage in this area is unfounded. (SEWL 2010(b), p. 7)

5.2.1 Water rates notice

SEWL issues a quarterly water rates notice to all residents and businesses in SEWL's locality. The complainant provided the VCEC, as evidence of their allegation, a copy of a SEWL water rates notice on which SEWL customers were advised of a 'dual flush toilet replacement program'. Through the program, SEWL customers are offered the opportunity to take advantage of a government rebate for replacing single-flush toilets with a new 4-star fully-installed, water-efficient dual-flush toilet. A condition of take-up is that SEWL customers engage the licensed plumber contracted by SEWL to deliver the program.

SEWL advised the VCEC that the provider contracted by SEWL to deliver the program is an independent plumbing business that was selected following a competitive tender process.

The VCEC has concluded that the issue of concern is outside the scope of CN policy because the program promoted through the notice is intended to support a State Government water conservation policy objective, and is not viewed as being a commercial venture. The fact that the program is delivered by an independent privately-owned plumbing business is a further reason that the concern is outside the scope of CN policy.

It is also noted that similar water conservation programs targeting SEWL customers are promoted on SEWL's website. The VCEC does not view the promotion of such programs as being within the scope of CN policy where they

are intended to meet State Government water conservation policy objectives and are not provided as commercial ventures.

5.2.2 Website

The internet is a tool through which businesses and government entities may impart information and promote their services to potential customers. The use of a statutory monopoly or regulator's website to promote a business operation can give rise to competitive neutrality concerns.

The VCEC undertook a review of SEWL's website to assess whether references on the site relating to SEWPP give rise to any competitive neutrality concerns. The VCEC found four relevant references to SEWPP on the SEWL website.

- The SEWL 'Contact Us' page.
- The page promoting SEWL's hot water unit installation program.
- The 'Save Water' page.
- The page designated to Priority Plumbing.

SEWL's 'Contact Us' page

SEWL's 'Contact Us' page includes contact numbers for a range of non-commercial services that are standard for a statutory water company to list, such as General Enquiries, Water Restrictions Hotline, and Account Enquiries. Also listed on this page is SEWPP and its 1300 contact number.

The VCEC has assessed that the listing of SEWPP, and its contact number, on the SEWL 'Contact Us' page, compromises CN policy. Neutrality is compromised because SEWPP is a business activity and its reference on the 'Contact Us' page does not distinguish between SEWL's statutory/non-commercial roles and its commercial plumbing activity which SEWL customers are not obliged to use. Neutrality would be achieved by including a note, placed in a prominent position, on the webpage informing SEWL customers that they are not obliged to use SEWPP, and that customers may consider independent plumbing service providers for their plumbing solutions.

Promoting hot water units

Part of SEWL's statutory role is to promote efficient water and energy usage to its customers. As part of this role, SEWL offers its customers the installation of a range of hot water units by 'our expert South East Water Priority Plumbing technicians' (SEWL 2010(g)). Reference to who will install the units is inconsistent with how SEWL promotes similar programs that private businesses have been contracted to deliver. In these other cases, generic wording such as

‘will be installed by licensed plumbers’ appears. Further, the wording ‘our expert’ appears to endorse SEWPP over independent plumbers.

The VCEC has assessed naming SEWPP in SEWL’s promotion of this program to contravene CN policy.

Save Water page

As already identified, part of SEWL’s role is to promote to its customers efficient water usage. Accordingly, the SEWL website has a page entitled ‘Save Water’. On this page, the question ‘How do you save water in your home *right now?*’ is followed by a list of programs designed to assist customers to save water. Listed among the programs is ‘Priority Plumbing’ and a brief summary of its services: ‘South East Water Priority Plumbing provides customers across the south eastern suburbs of Melbourne and the Mornington Peninsula with a comprehensive range of plumbing solutions, including emergency and general plumbing services for your water and sewerage systems’ (SEWL 2010(h)).

The VCEC has assessed that the listing in this section of SEWPP and providing a summary of its services constitutes a cross-promotion that contravenes CN policy. Including SEWPP on this page and the way the information is presented promotes SEWPP over independent plumbers who are able to offer the same service but are not provided the same opportunity to list their businesses on a webpage promoting government water saving objectives. Moving SEWPP from the ‘Save Water’ webpage would address this concern.

Priority Plumbing

SEWPP does not have a website of its own. Instead, it has a page on SEWL’s website. The Priority Plumbing page includes:

- advice regarding SEWPP’s service area
- a list of the range of plumbing services available to its customers (but not prices)
- advice that SEWPP is able to assist 24 hours a day, 7 days a week
- SEWPP’s 1300 760 306 contact number and
- advice that SEWPP guarantees the work of all its licensed plumbers.

(SEWL 2010(i))

SEWL advised the VCEC that SEWPP was established to ‘meet the needs of South East Water residential customers regarding a premium, reliable general plumbing service’ (SEWL 2010(b)). SEWL believes there will always be a class of SEWL customer who will seek information from SEWL regarding plumbing services, that these customers expect the company to provide a plumbing service, and have a preference to use the service. Providing that information through the SEWL webpage could be seen as addressing this need. The VCEC accepts that

there is a need for SEWL to supply this information to its customers and that providing it on SEWL’s website is appropriate. However, the information should be presented in a way that does not compromise CN policy. The VCEC has, therefore, assessed the information presented on the page in this context.

The ‘Priority Plumbing’ page advises: ‘Customers are under no obligation to use South East Water Priority Plumbing to provide the range of services offered and may wish to obtain further independent advice’ (SEWL 2010(i)). By advising its customers that they are under no obligation to use SEWPP, SEWL goes some way to satisfying CN policy and principles. However, the advice provided should be more explicit about alternative options—specifically, by highlighting that independent privately-owned plumbing businesses may provide the same services, including a 24-hour-a-day, seven-day-a-week service. This would allow SEWL customers to make more informed, and appropriate, decisions regarding their plumbing needs.

Recommendation Three

The VCEC recommends that SEWL review and, where appropriate, update its website to ensure information is provided in a way that is consistent with CN policy. The VCEC has identified several specific concerns which need to be addressed, and recommends the following actions be taken.

- **Include a note, where SEWPP is listed on the ‘Contact Us’ webpage, informing SEWL customers that they are not obliged to use SEWPP and that they may consider independent plumbing service providers.**
- **References to SEWPP and ‘our expert South East Water priority Plumbing technicians’ be removed from the ‘Save Water’ webpage.**
- **Include advice that independent privately-owned plumbing business operations may provide the same services—including a 24 hour-a-day, seven-day-a-week service—on the Priority Plumbing webpage.**
- **Ensure that the presentation of any additional references on SEWL’s website to SEWPP reflect CN policy.**

5.2.3 Uniforms

The complainant alleged that the staff employed by a private company contracted by SEWL wear SEWL-branded uniforms and that this is a form of cross-promotion of the SEWL plumbing service brand name. In response, SEWL confirmed that the employees of independent businesses contracted by SEWL wear SEWL uniforms. The VCEC considers that the wearing of SEWL branded uniforms by the employees of independent businesses contracted by

SEWL is not in the scope of the CN policy because it does not cross promote SEWL's commercial plumbing business (SEWPP).

The VCEC also confirmed with SEWL that plumbers contracted by SEWPP wear uniforms with a Priority Plumbing insignia, which differentiates SEWPP plumbers from both SEWL employees and employees of independent businesses contracted by SEWL, who wear SEWL uniforms.

5.3 Exemptions from procedures

The complainant alleged that SEWL's commercial plumbing activities benefit from being exempt from processes that their competitors are required to follow. The complainant provided two examples which they believed demonstrate that SEWL's plumbing business has advantages solely due to the business being government owned.

5.3.1 Road opening permits

The complainant alleged that SEWL's commercial plumbing businesses do not need to obtain a 'road opening permit' from councils for works for which independent plumbers would be required to obtain such a permit.⁴

In response to this allegation, SEWL advised the VCEC that 'road opening permits are not required for SEWL to carry out its statutory works as SEWL has a long standing agreement with councils due to our proven ability to comply with Council standards' (SEWL 2010(b)).

SEWL clarified that SEWPP plumbers are required to obtain the appropriate permits when providing services on a commercial basis (that is, in the provision of services for which SEWPP competes with independent plumbers).

On the very rare occasion that a SEWPP Plumber is required to open a road for a commercial activity they are required to obtain a road opening permit to carry out the works, as in our experience this would be conducted as planned works (i.e. not emergency works). If our plumbers do complete any works within the road reserve, our plumbers are required to complete and lodge the appropriate paperwork with the corresponding Council to undertake and obtain a road opening permit. For any works completed within the road reserve the plumber completing the work is responsible for any associated reinstatement costs and ensure the road is reinstated to the council specifications. (SEWL 2010(d))

Based on the information provided by SEWL, the VCEC finds that there is no breach of CN policy, in relation to road opening permits.

⁴ A 'road opening permit' is required for work involving the opening of a nature strip, footpath or roadway. Permits for work on local roads are issued by councils.

- (1) Statutory works are outside the scope of CN policy.
- (2) SEWPP plumbers are required to obtain road opening permits for commercial work so they do not enjoy a competitive advantage over independent plumbers with whom they compete for these works.

5.3.2 Dial-before-u-dig

The complainant alleged that, unlike independent plumbers, SEWL's commercial plumbing services are not required to call the 'dial-before-u-dig' service to obtain access to underground utilities asset maps.

SEWL advised the VCEC that:

Dial before U dig is a 'referral' based business. If SEWPP plumbers need to do work external to the customer's property, they are encouraged to use Dial before U Dig (DbuDig) / Melbourne One Call Service (MOCS) (this is not mandated for any plumber). It is used solely as a risk mitigation / minimisation tool - plumbers ring the number and ask for the asset locations or area of work near the property. DbuDig/MOCS refer the enquiry to relevant utilities to provide maps direct to the plumber ... at a cost to the Utility not the plumber. There is no requirement to use this service and SEWPP plumbers gain no competitive advantage in relation to this issue. (SEWL 2010(d))

The VCEC finds that there is no CN advantage relating to the use of the 'dial-before-u-dig' service. This service is provided on the same free basis to independent plumbers and SEWPP sub-contracted plumbers. There is no requirement for any plumber to use the service, although SEWPP sub-contracted plumbers are encouraged to use it.

5.4 Access to SEWL data/information

The complainant alleged that SEWL shares with its commercial plumbing businesses privileged data and information that are not readily available to its competitors. The complainant alleged that, through sharing information with its commercial plumbing business, SEWL has created an unfair market.

In response to this allegation, SEWL advised the VCEC that:

No data or information that can be used for competitive gain is shared with any commercial business areas of South East Water or 'us'-Utility Services.

All plumbers have access to the same data from South East Water at the same cost as SEWPP. As an example, if a private plumber was to call South East Water for information about the sewer plan of a residential property, they can obtain free advice over the phone – as can SEWPP. If they want a copy of the plan, South East Water charges a cost for this service to both private plumbers and the contracted plumbers working on behalf of SEWPP. (SEWL 2010(b))

SEWL also advised the VCEC that, to perform its role in the regulatory process, it maintains property owner data to which its Plumbing Services division has access.

The only data / information that our Plumbing Services division has access to is basic name and address details to confirm accuracy of address data. This data is readily accessible to other plumbers from a number of other sources at a cost. The Plumbing business pays a licence fee for access to the system. (SEWL 2010(b))

SEWL advised the VCEC that SEWPP undertakes a check of address details prior to a SEWPP plumber being called for a job (SEWL 2010(j)). This is a procedural step taken to confirm the address details only. The information is not used for promotional purposes (i.e. to send promotional information, for example) or used in any other way which might be construed to give SEWPP a commercial advantage over its competitors.

Based on the information provided, the Commission finds that SEWPP plumbers do not have access to SEWL data/information that will give them, and therefore SEWPP, any advantage over independent privately-owned plumbers.

5.5 Access to and use of government-owned equipment

The complainant alleged that SEWL's commercial plumbing businesses have access to, and use of, 'publicly owned SEWL assets and expensive specialised equipment' at no cost.

In response to this allegation, SEWL advised the VCEC that plumbers sub-contracted by SEWPP own and use their own equipment when performing plumbing jobs as SEWPP sub-contractors. Therefore, the plumbers, not SEWPP, absorb the costs of the equipment used.

SEWL, however, also advised the VCEC that SEWPP's sub-contracted plumbers occasionally hire specialised acoustic leak detection equipment from SEWL, for a fee, when such equipment is available. In these cases, a hire fee, set at a market rate, is charged. No government-owned equipment is used by SEWPP plumbers without cost. SEWL also advised the VCEC that this specialised equipment, is available to private plumbers (when it is available) at the same cost charged to SEWPP sub-contracted plumbers. (SEWL 2010(j))

Based on the advice provided by SEWL, the VCEC finds that there is no breach of competitive neutrality in relation to this allegation.

5.6 SEWL's alliance arrangement

The complainant expressed concern that the strategic alliance between SEWL, Thiess Services Ltd and Siemens Ltd, which led to the establishment of 'us'-Utility Services in 2005 created unfair advantages for SEWL's plumbing operations. The question as to whether SEWL may enter into an alliance with non-government businesses is not a CN issue.

As discussed in section 1, the CN policy does not preclude government-owned businesses from entering into alliances with non-government businesses.

The VCEC understands that SEWL entered into a strategic alliance with Thiess Services Ltd and Siemens Ltd with the objective of generating efficiencies in the delivery of its water and sewerage functions. Where SEWPP is managed by 'us'-Utility Services, it might benefit from the managerial skills derived from the arrangement, but this is not within the scope of CN policy.

6 Conclusions

SEWL has demonstrated that it is aware of its CN obligations in relation to the provision of commercial plumbing services. In 2002, it contracted the ACG to undertake a CN assessment of its commercial plumbing services. SEWL provided the VCEC with a copy of the ACG report and other documentation to support its response to the complaint. SEWL advised the VCEC that it had implemented the ACG recommendations and applied CN principles to SEWPP.

The VCEC investigated the allegations and concerns made by the complainant. SEWL was largely able to explain how it applied CN or, in some instances, explain why some issues raised were not within the scope of CN policy.

Overall, the VCEC has found that, with some exceptions, SEWL has demonstrated that the operation of its commercial plumbing business, identified as SEWPP, is compliant with the CN policy. The VCEC's conclusions relating to each specific complaint are summarised below.

The VCEC has concluded that there has been no breach of CN policy in relation to the following areas.

- **SEWL procedures.** The VCEC is satisfied that SEWL has procedures in place so that its field crews do not direct SEWL customers to use SEWL's commercial plumbing services.
- **Business promotion.** The VCEC is satisfied that SEWL does not use water rates notices or uniforms, as a form of advertising, to cross-promote SEWL's commercial plumbing services.

- ***Exemptions from procedures.*** There is no evidence of a breach of CN policy with regard to the allegation of SEWPP sub-contracted plumbers being exempt from procedures to which independent plumbers are subject. Privately-owned independent plumbers, and SEWPP's sub-contracted plumbers, face the same requirements in relation to road opening permits from councils.
There is no mandatory requirement for plumbers to use the 'dial-before-u-dig' service. SEWPP plumbers are encouraged to use the service and both SEWPP sub-contracted plumbers and independent plumbers can access the service at no cost.
- ***Use of SEWL data/information.*** SEWPP's sub-contracted plumbers do not have access to SEWL data and information that are not available to independent plumbers. SEWPP does, however, access name and address details from the SEWL Plumbing Division database, to confirm customer details prior to SEWPP plumbers being called for a job. However, the information is not used for promotional purposes or in other ways that might give SEWPP an unfair commercial advantage over its competitors. The same data are available from other sources, therefore, there is no breach of CN policy.
- ***Use of SEWL assets.*** SEWPP's sub-contracted plumbers use their own plumbing equipment and, therefore, absorb the full cost of the use of the equipment. SEWPP's sub-contracted plumbers may occasionally hire specialised acoustic leak detection equipment from SEWL, for a fee, if the equipment is available. On the occasions where SEWPP plumbers use government-owned (SEWL) specialised equipment, SEWL charges a market price for its use, and that access at the same rate and terms is available to independent plumbers.

However, the VCEC identified areas in which CN policy had not been fully complied with, and made recommendations that the VCEC believes, if implemented, would enhance SEWL's compliance with CN policy.

- ***SEWL defect notice procedures.*** Information supplied on, and the format of, the defect notice issued by SEWL to SEWL customers appear to encourage use of SEWL's commercial plumbing service over its competitors.
- ***SEWL call centre procedures.*** Call centre processes and scripts may advantage SEWPP by not providing neutral information.
- ***Business promotion.*** SEWL's website cross-promotes its commercial plumbing services where it refers to SEWPP.

To address these issues the VCEC includes three recommendations in this report.

Recommendation One

The VCEC recommends that SEWL review the format and wording of the Defective Water Pipes or Fittings notice (Defect Notice) to enhance neutrality of the information provided.

The VCEC considers that the notice needs to include sufficient information to enable SEWL customers to take the necessary steps to have the damaged pipe repaired without implicitly or explicitly directing SEWL customers to a particular service provider. At present, the very prominent positioning, font size and style of the SEWL contact number could reasonably be seen as suggesting that SEWL customers should in the first instance call SEWL (despite the notice advising that SEWL customers can select a plumber of their choice).

Recommendation Two

The VCEC recommends that SEWL review its call centre plumbing services processes and scripts (for advising customers) to ensure that the information provided to SEWL customers regarding general plumbing needs is neutral. Neutrality requires that SEWPP service and sales advice only be given after general plumbing solution information has been provided and where the SEWL customer has asked specifically for further information regarding SEWPP services.

The VCEC will ask SEWL to provide a summary of its review and copies of call centre processes and scripts relating to plumbing services three months from the issue date of the final investigation report.

Recommendation Three

The VCEC recommends that SEWL review and, where appropriate, update its website to ensure information is provided in a way that is consistent with CN policy. The VCEC has identified several specific concerns which need to be addressed, and recommends the following actions be taken.

- Include a note, where SEWPP is listed on the ‘Contact Us’ webpage, informing SEWL customers that they are not obliged to use SEWPP and that they may consider independent plumbing service providers.
- References to SEWPP and ‘our expert South East Water priority Plumbing technicians’ be removed from the ‘Save Water’ webpage.
- Include advice that independent privately-owned plumbing business operations may provide the same services—including a 24 hour-a-day, seven-day-a-week service—on the Priority Plumbing webpage.
- Ensure that the presentation of any additional references on SEWL’s website to SEWPP reflect CN policy.

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Appendix 1: Competitive neutrality measures

The CN policy provides three measures for implementing competitive neutrality—corporatisation, commercialisation, and full cost-reflective pricing.

Corporatisation

‘Corporatisation involves the creation of a separate legal business entity to provide the relevant goods and services’ (Government of Victoria 2000, p. 7).

The following characteristics of a corporatised entity are described in the CN policy.

- Clear and non-conflicting objectives.
- Managerial responsibility, authority and autonomy.
- Independent and objective performance monitoring.
- Performance-based rewards and sanctions.

Corporatisation is the preferred way to address CN issues when the government agency operates a business in a market in which it has statutory monopoly functions. Full separation through corporatisation ensures the agency does not face conflicting objectives between its statutory monopoly functions and commercial objectives.

Commercialisation

Commercialisation ‘involves organising an activity along commercial lines without creating a separate legal business entity’ (Government of Victoria 2000, p. 7).

CN policy notes that commercialisation is typically achieved by applying a set of ‘commercial practices’ to the business functions of a government agency. These practices may include:

- clear delineation of commercial and non-commercial activities, typically through a business plan
- clearly defined commercial performance targets and financial reporting requirements
- separate accounting for, and funding of, non-commercial activities
- separation of regulatory functions from commercial activities
- an appropriate financial return on the assets used in the commercial activity
- application of a tax equivalent regime
- appropriate financial arrangements for allocating profits from the commercial activity. (Government of Victoria 2000, p. 7)

Commercialisation is less costly than corporatisation. It is, thus, likely to be the preferred model for addressing CN issues when the government agency does not have statutory monopoly functions or decision making powers that significantly affect the profitability of its business and competitors, or when the costs of corporatisation are high relative to the benefits. Examples of where commercialisation can be an effective instrument for achieving competitive neutrality include council operated aquatic and recreation centres.

Full cost-reflective pricing

Full cost-reflective pricing takes into account all of the costs that can be attributed to the provision of the good or service (including the cost of capital), as well as the cost advantages and disadvantages of public ownership. The CN policy notes:

The intention of full cost-reflective pricing is to offset any net competitive advantages a government business may enjoy, thereby ensuring that resource allocation decisions are made on the basis of comprehensive and accurate costing. (Government of Victoria 2000, p. 7)

Full cost-reflective pricing, without corporatisation or commercialisation, may be sufficient if the main CN issues relate to cross subsidies between commercial and non-commercial activities of government entities. It does not, however, address non-pricing concerns. It is the preferred model for addressing CN issues when the government business is small and the issue does not warrant taking on the relatively large costs involved in corporatisation or commercialisation. An example of where full cost-reflective pricing may be an effective measure to achieve CN would be the operation of a small cafeteria within a public hospital.

Appendix 2: SEWL key strategic directions

SEWL has outlined its three key strategic directions which are integral to achieving SEWL's vision. The strategic directions are:

1. Provide Customer Water Solutions

This Strategic Direction involves:

- Understanding our customers
- Assisting our customers to become more water efficient
- Reducing non-revenue water
- Seeking alternative water supplies
- Ensuring flexible delivery frameworks

2. Deliver Efficiency and Growth

This Strategic Direction aims to:

- Increase business operating efficiency
- Maximise value with our customers
- Grow the 'us' Utility Services alliance
- Develop new business approaches

3. Deliver Improved Social and Environmental Outcomes

This strategy explicitly recognises South East Water's environmental and social responsibilities and associated activities, including:

- Embedding sustainability into our business practices
- Maintaining our natural assets and resource efficiency
- Meeting all water and sewer performance targets
- Engaging our community stakeholders.

(SEWL 2009(a), pp. 11-12)

Appendix 3: Responsibility for water asset maintenance

In relation to property service pipes and fittings:

The general rule is that we [SEWL] are responsible for maintaining the water meter and what is known as the property service pipe. The property service pipe includes the pipes and fittings from the water main to the water meter or property boundary, or the boundary stop valve where there is no water meter.

You [SEWL customers] are required to maintain any pipe work on your side of the water meter, at your cost.

(SEWL 2009(c), p. 19)

Responsibility for the maintenance of water and sewage infrastructure crosses from SEWL to the owners of private property (who are serviced by SEWL) at the property owner's boundary. Similarly, in the case of sewer works:

The general rule is that we [SEWL] are responsible for maintaining our sewer and its branches, to a connection point where the "house connection drain" begins. You are responsible for maintaining all sewage works on your property, beyond that point.

The sewerage works you [SEWL customer] are required to maintain must be kept in repair and good working order, ...

(SEWL 2009(c), p. 19)

Appendix 4: South East Water - Defective Water Pipes or Fittings notice

SOUTH EAST WATER 
Defective Water Pipes or Fittings

Issued to:

at

Suburb:

A defect has been found on the water pipes and / or fittings which service this property. These pipes and/or fittings are the owner's responsibility to maintain and repair. The Water Industry Act 1994 requires these repairs are carried out within the period shown below. Should the leak deteriorate or present a public risk, the service will be immediately shut off. Failure to repair within the prescribed period will result in disconnection of supply. A re-connection fee will be charged to the customer should this service be disconnected.

Nature of defect:

.....

Please repair it within:

24 hours

..... days

All repairs are to be carried out by a licensed plumber. You can select a plumber of your choice or alternatively South East Water Limited can provide licensed plumbers to carry out these works for you.

Telephone **13 2812**

For Assistance 24 hours a day

Served by: Date:

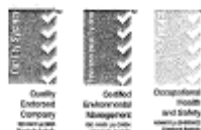
Follow up by: Date:

For further information, please contact:

Reference No.

White Copy - Customer
 Pink - South East Water Limited
 Yellow - Retain

South East Water Limited
 ABN 89 066 902 547



ATTACHMENT 4

SFS-SFG-156
 Revised October 2002