

23 June 2025

Carmel Donnelly PSM
Chair
IPART
Level 16,
2-24 Rawson Place
SYDNEY NSW 2000

Submitted via e-mail to: water@ipart.nsw.gov.au

Dear Carmel,

Re: coNEXA's submission to Prices for Sydney Water Corporation from 1 October 2025 Draft Report

Thank you for the opportunity to provide a submission to IPART's current review of Sydney Water's prices – Draft Report. Please find following our submission.

We ask that IPART considers our submission in making its final determination of Sydney Water's prices, and that it also considers elements of our submission that relate more broadly to IPART's role in regulating Sydney Water's prices and performance in the long-term interests of customers.

We would welcome the opportunity to discuss our submission further or clarify elements of our submission as necessary.

Yours sincerely,



Kurt Dahl
Chief Executive Officer



SUBMISSION

coNEXA submits this response to IPART's Draft Report on Sydney Water's prices for 2025-2030. While we acknowledge positive elements in IPART's draft decisions, particularly the movement towards variable pricing, we believe there are issues that still need to be addressed, that may otherwise increase costs to customers and impact NSW Government strategic priorities.

We identify opportunities for IPART to better align pricing with economic efficiency principles, follow NSW Government directions on least cost planning, and promote competitive solutions that could deliver better outcomes for customers. These adjustments would support both customer interests and government policy objectives for the water sector.

Water Pricing Structure: Supporting Variable Pricing Direction

We agree with IPART's decision to increase the variable water usage charge and support the focus on variable rates as the primary mechanism for cost recovery. This approach aligns with economic efficiency principles and customer preferences for greater control over their bills.

We note that IPART has identified the long-run marginal cost (LRMC) of water supply at approximately \$3.90-3.92 per kilolitre:

"After adjusting these assumptions, we found that the Turvey method gives an LRMC of around 3.90/kl"

If additional capital expenditure is approved during this review process, we recommend that any resulting price increases should be applied to the variable charge to align closer with the LRMC, rather than increasing fixed service charges. This approach would maintain consistency with IPART's stated direction towards variable pricing and ensure efficient cost allocation.

Wastewater Pricing: Addressing Economic Inconsistencies

We are concerned about the economic inconsistency in IPART's approach to wastewater pricing. IPART has accepted Sydney Water's position that *"estimating a wastewater LRMC is not meaningful"*.

However, this position appears inconsistent with Sydney Water's substantial investments in recycled water infrastructure, which are justified based on wastewater network capacity constraints and volume reduction benefits. This creates conflicting signals for investment evaluation and market development.

While Sydney Water has only submitted their proposal under the "standard" expectations of the grading rubric, even this most basic of grading levels requires "a balance of fixed and usage charges that takes into account the long run marginal cost (LRMC) of providing services."

We consider that the current balance is out. Sydney Water takes the position that:

LRMC methods to set the variable usage charge but found them unsuitable due to limited data and weak links between costs and discharge volumes. Wastewater is not metered, the usage is price inelastic, and major cost drivers are not volume-based.

This position begs the question of whether estimating a wastewater LRMC is meaningful, given that the utility has not collected enough data to support its position. We believe that IPART should consider it beneficial to Sydney Water's customers and other stakeholders for Sydney Water to aspire to higher "Advanced" or

Leading” expectations under the grading rubric in order to take a data-driven and informed position on the meaningfulness of estimating an LRMC of wastewater given the following matters considered by IPART:

- Matters under section 14A(2) of the IPART Act:
 - “the government agency’s economic cost of production.
 - the need to promote competition in the supply of the service concerned.”
- Matters under section 15 of the IPART Act:
 - “the cost of providing the services concerned.
 - the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers.
 - the need to promote competition in the supply of services concerned.”

We recommend that IPART require Sydney Water to develop catchment-level LRMC estimates for wastewater services in order for it to provide consistent pricing and investment signals, particularly given the substantial recycled water investments being proposed.

Growth Investment and Developer Charges: Ensuring Appropriate Cost Recovery

IPART’s draft report does not adequately examine whether Sydney Water’s developer charges properly recover growth-related infrastructure costs. Sydney Water has indicated that substantial investment is required for growth, yet it appears these costs may not be fully recovered through developer charges as designed.

If Sydney Water customers are subsidising growth investments through their bills, we recommend that Sydney Water should be willing to support private sector solutions that deliver net benefits to customers. Private sector providers can deliver targeted, cost-effective infrastructure solutions for new developments, particularly through integrated water cycle management approaches.

We recommend that IPART require Sydney Water to demonstrate the full impact of growth-related costs beyond those recovered by Developer Charges, and where subsidies exist, consider how private investment participation can be a lever for innovation in unlocking more efficient alternatives. Any broad customer subsidies for growth assets, should be available to private sector proponents, where they result in a lower overall system cost.

Least Cost Planning: Following Government Direction

The NSW Government specifically directed IPART to consider:

“opportunities to adjust project timelines to minimise price impacts and, if necessary, to reduce the proposed capital programs in line with least cost planning principles”

We believe IPART’s analysis could be strengthened by a more comprehensive consideration of alternatives that include private-sector investment collaborations and partnerships, as these could be the most cost-effective options for the clear benefit of rate payers. Private sector providers, including WIC licensees, often bring specialised expertise, access to innovations, and stronger efficiency incentives that should be evaluated in least-cost planning assessments.

Least-cost planning that includes private-sector-supported investment alternatives can be harmonised to align with broader NSW Government policy objectives around privatisation, competition, and efficiency in infrastructure delivery. The Water Industry Competition Act recognises the value of competitive solutions, and IPART’s pricing framework should support this policy direction.

We recommend that IPART require Sydney Water to demonstrate that its proposed capital programme represents the least-cost approach, with specific consideration of alternatives that include private-sector investment for major projects.

Deliverability and Market Conditions: Comprehensive Assessment

The NSW Government also directed IPART to assess:

“deliverability of the proposed capital plans based on capability and market conditions”

IPART's draft report provides limited analysis of Sydney Water's delivery capability relative to the scale of proposed investments. The proposed capital programme represents a substantial increase, placing significant demands on project management and delivery capabilities. The question arises as to whether it is reasonable to expect one organisation to deliver solutions for all of the growth initiatives in flight.

Market conditions have evolved significantly, with private sector providers developing enhanced capabilities in water infrastructure delivery. These providers often have access to specialised expertise, innovative technologies, and efficient delivery methodologies that may provide better outcomes. Sydney Water already relies heavily on the private sector through consulting engagements and regional delivery consortiums to provide services.

Private sector delivery mechanisms, including ownership, may offer advantages including adaptive approaches, flexible financing, speed to service, stronger efficiency incentives, and risk transfer opportunities.

We recommend that IPART require a comprehensive assessment of Sydney Water's delivery capability and evaluate alternative delivery mechanisms that could improve efficiency or reduce risks for customers.

Competition and Market Access: Promoting Efficient Solutions

We recommend that IPART consider differential water service charges for customers with recycled water supply, recognising their reduced peak network demands. When customers connect to recycled water systems, they reduce peak demand on Sydney Water's network, providing value by deferring augmentation costs.

However, these customers pay the same fixed service charges as those placing full demand on the network. This fails to recognise network benefits and creates cross-subsidies that impede efficient market development.

Enhanced oversight mechanisms for Sydney Water's negotiations with WIC licensees, along with clear dispute resolution processes, would support fair market access and promote competitive solutions.

Stormwater Cost Recovery: Improving Transparency

IPART's draft report would benefit from clearer separation of stormwater management costs from stormwater reuse costs, with transparent allocation methodologies that comply with cost-reflective pricing principles. The current approach appears to recover stormwater costs from wastewater customers without clear justification, potentially creating inappropriate cross-subsidies.

Recommendations

We recommend that IPART's final determination:

1. **Maintain Variable Pricing Focus:** Apply any additional capital cost increases to variable charges to align more closely with LRMC, rather than increasing fixed charges.
2. **Develop Wastewater LRMC:** Require catchment-level LRMC estimates for wastewater services to provide consistent pricing and investment signals.
3. **Review Growth Cost Recovery:** Ensure clarity and transparency in the recovery of growth costs and consider efficient private sector alternatives to mitigate the impact of any subsidisation.
4. **Implement Least Cost Planning:** Require a demonstration that proposed capital programmes represent least-cost approaches, with consideration of private sector alternatives.
5. **Assess Deliverability Comprehensively:** Evaluate Sydney Water's delivery capability and consider alternative delivery mechanisms that could improve delivery and cost efficiency.
6. **Enhance Competition Framework:** Implement differential pricing for recycled water customers and improve market access mechanisms.
7. **Improve Transparency:** Establish clear cost separation and allocation methodologies for stormwater services.

Conclusion

IPART's draft report provides a foundation for improved water pricing in Sydney. The recommendations above would strengthen the framework by better aligning with economic efficiency principles, following the directions of the NSW Government, and promoting competitive solutions that deliver better outcomes for customers.

We believe these adjustments would support both customer interests and government strategic priorities for the water sector, while ensuring compliance with specific government directions regarding least cost planning and deliverability assessment.

We welcome the opportunity to discuss our submission further and look forward to working with IPART to establish a pricing framework that serves the long-term interests of all stakeholders in Sydney's water sector.

ENDS