

# Wholesale prices for Sydney Water and Hunter Water



## WHAT

IPART is reviewing the prices Sydney Water and Hunter Water can charge for wholesale water and sewerage services. These services are purchased by wholesale customers who provide water and/or sewerage services to end-use (or 'retail') customers, such as households and businesses.

We have released a Draft Report and Draft Determination and invite stakeholder feedback.

## WHY

Competition in the NSW water market has emerged in recent years due to the *Water Industry Competition Act 2006*. This has led IPART to set **wholesale** water and sewerage prices for the first time.

We released final reports and determinations on **retail** prices for Sydney Water and Hunter Water in June 2016. These determinations set retail prices for the period 1 July 2016 to 30 June 2020.

Since this is the first time we are setting wholesale prices, we are undertaking an extended review of this new and complex area of water price regulation.

## HOW

We are seeking to encourage efficient entry into the water and sewerage market.

We have identified the following wholesale arrangements to set prices for in this review:

- ▼ On-selling water and sewerage services
- ▼ Drinking water top-up for recycled water schemes, and
- ▼ Recycled water plant waste disposal.

## WHO

For the purposes of this review we have defined a wholesale customer as a business that purchases water or sewerage services from Sydney Water or Hunter Water and uses these services to compete for end-use (or 'retail') customers, and:

- ▼ the wholesale service is a monopoly service
- ▼ the service to end-use customers is the same or a close substitute to one provided by Sydney Water or Hunter Water, and
- ▼ the service to end-users is provided by a licence holder under the *Water Industry Competition Act 2006*.

## WHEN

The key dates for this price review are:

- ▼ 28 November 2016 – Public Hearing
- ▼ 7 December 2016 – submissions to Draft Report due
- ▼ February 2017 – release of Final Report and Determination
- ▼ Prices to apply from 1 March 2017 to 30 June 2021.

## WHAT NEXT

Submissions are due by **7 December 2016**.

We prefer submissions via our online [form](#). You can also send comments by fax to (02) 9290 2061, or by mail to:

**Wholesale water pricing review**  
Independent Pricing and Regulatory  
Tribunal  
PO Box K35  
Haymarket Post Shop, NSW 1240

Unless they are identified as confidential, we plan to put all submissions on our website soon after the closing date for submissions.

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## Pricing for on-selling water and sewerage services



Our **draft decision** is to apply a **retail-minus price** for **on-selling** as this enables wholesale customers to compete without being advantaged or disadvantaged by policies that apply to Sydney Water and Hunter Water (eg, postage stamp pricing). This will encourage efficient entry and competition, which will ultimately benefit end-use customers.

The **minus component** would be based on the costs a **reasonably efficient competitor** would incur in providing services from the point of wholesale purchase to end-use customers.

Our draft prices for on-selling are based on the costs of a reasonably efficient competitor’s retail and reticulation services, the most common services delivered by wholesale customers. Our **draft prices** for on-selling would be:

- ▼ the sum of end-use customer retail charges<sup>1</sup>, less
- ▼ the minuses shown in the table below, applied based on number of end-use customers and kilometres of pipeline for the applicable service.

	Service	Minus (\$2016/17)
<b>Water</b>	Retail (\$/customer)	69.60
	Reticulation (\$/kilometre of pipeline)	4,227.91
<b>Sewerage</b>	Retail (\$/customer)	46.40
	Reticulation (\$/kilometre of pipeline)	7,692.63

## Pricing for potable top-up and waste disposal for recycled water plants



Our **draft decision** is that the prices to apply to wholesale services to and from recycled water plants are the non-residential (retail) prices that we set in our recently completed reviews of Sydney Water and Hunter Water’s retail water and sewerage prices.



Non-residential retail charges<sup>2</sup> comprise:

- ▼ For **drinking water top-up**: a meter connection charge for each meter (based on meter size) and a usage charge (\$/kL).
- ▼ For **recycled water plant waste disposal**: a meter connection charge for each meter (based on meter size), a deemed usage charge, a sewerage usage charge (above a discharge allowance) and any applicable trade waste charges.

<sup>1</sup> Based on the prevailing water and sewerage retail Determination for Sydney Water or Hunter Water.

<sup>2</sup> As above.

## Who do these wholesale prices apply to?

Our draft decision is to set **system-wide prices** for these services to apply to **new wholesale arrangements**. This reduces the need for costly and time-consuming scheme-specific price reviews.

For **existing and new wholesale arrangements**, wholesale customers and service providers would have the option of seeking a scheme-specific price review from IPART or, if both parties agree, entering into an unregulated agreement. For example:

- ▼ For a **new scheme**, parties may seek a scheme-specific determination by IPART, if either party considers the system-wide prices set by IPART do not reflect the characteristics of the scheme and they cannot reach agreement on price.
- ▼ For an **existing scheme**, a wholesale customer or service provider may seek a scheme-specific determination by IPART if they cannot reach agreement on price.

## Scheme-specific price reviews

We will consider requests from a wholesale customer or wholesale service provider to undertake a scheme-specific review.

The system-wide prices in our Draft Determinations would serve as the starting point for determining prices in any future scheme-specific review. We would consider stakeholder views on whether the system-wide prices are appropriate for the relevant scheme.

For example, a scheme-specific review may be needed for schemes with large facilitation costs. Under current policy settings, in many schemes positive facilitation costs for infrastructure are likely to be zero. Also, average facilitation costs cannot be accurately estimated so have not been included in our system-wide prices. We would therefore consider facilitation costs in a scheme-specific review.

**Facilitation costs** are costs (positive) or cost savings (negative) to Sydney Water or Hunter Water of servicing the wholesale customer that are not reflected elsewhere in the wholesale price.

Our proposed process for undertaking scheme-specific reviews is outlined in the box below. IPART would use its best endeavours to complete a review within twelve months.

### IPART's process for determining scheme-specific prices

1. The wholesale customer or wholesale service provider writes to IPART to request a price review and determination for an existing or proposed wholesale water and/or sewerage scheme. IPART considers the request and decides whether to undertake a review.
2. IPART initiates the review by requesting that the wholesale service provider submit a Wholesale Pricing Proposal by a specific date. This Proposal should be informed by consultation with the wholesale customer(s). IPART also advertises the price review in the relevant local newspaper.
3. On receipt of this Proposal, IPART prepares a summary and forms a preliminary view on the Proposal. IPART would then publish the Proposal and its preliminary view on the IPART website, and invite stakeholders to make written submissions – including wholesale customers. IPART holds a public hearing to discuss the Proposal and stakeholder submissions.
4. IPART considers the Proposal and stakeholder comments, makes draft pricing decisions, and releases a draft report and determination for stakeholder comment.
5. IPART considers submissions and makes final pricing decisions, and releases a final report and determination that sets out the maximum prices for each wholesale service supplied to the scheme.

## Unregulated pricing agreements



Wholesale customers and wholesale service providers can agree to opt-out of IPART's determined prices through unregulated pricing agreements.