

30 June 2017



## WHAT

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

We have released a Final Report and Final Determinations, which:

- ▼ outline the regulatory framework for pricing wholesale services, and
- ▼ set out what prices should apply within this framework.



## WHY

Competition in the NSW water market has emerged in recent years due to the *Water Industry Competition Act 2006*. To support entry into the market, IPART is setting **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 retail prices will apply from 1 July 2016 to 30 June 2020.

We have completed our review of **wholesale** prices. In making our final decisions, we took into account submissions from stakeholders following our March 2017 Supplementary Draft Report.



## HOW

We have sought to encourage entry into the water and sewerage market where this will ultimately deliver benefits to customers.

Our regulatory framework for wholesale prices comprises three components:

- ▼ system-wide prices for on-selling water and sewerage services for new schemes without a recycled water plant, to apply from 1 January 2018 to 30 June 2021
- ▼ scheme-specific price reviews, and
- ▼ unregulated pricing agreements.



## WHO

The **system-wide prices** only apply to **new** wholesale arrangements involving entities licensed under the *Water Industry Competition Act 2006*, which are:

- ▼ on-selling Sydney Water's or Hunter Water's water or sewerage services to their own customers, and
- ▼ do **not** have a recycled water plant.

Given the current legislative framework, there may be few schemes where the system-wide prices will apply as most schemes are likely to have a recycled water plant. However, these prices may provide useful information to market participants and could apply to new schemes before a recycled water plant is present in the scheme.

All schemes have the option to enter into **unregulated pricing agreements** or apply for a **scheme-specific review**.



## WHAT NEXT

Our report, determinations, stakeholder submissions, public hearing transcripts and consultants' reports are available on our website ([www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)).

## WHAT HAS CHANGED?

The key changes in the Final Report are:

- ▼ System-wide prices will only apply to new schemes where the wholesale customer is on-selling water and sewerage services and there is no recycled water plant present:
  - Where a recycled water plant is present, the wholesale supplier and customer can enter into an unregulated agreement or come to IPART for a scheme-specific review.
  - The non-residential prices to apply to recycled water waste disposal (where there is no on-selling of sewerage services) and potable top-up to recycled water plants are set out in IPART's 2016 retail price determinations for Sydney Water and Hunter Water.
- ▼ Streamlining the process for scheme-specific reviews to minimise time and costs.

## WHAT DO THESE CHANGES MEAN FOR WHOLESALE SCHEMES?

Under the framework outlined in the Final Report:

- ▼ **Existing schemes** continue to be subject to existing pricing agreements (or, where applicable, the retail price determinations<sup>1</sup>), unless a wholesale customer or service provider seeks a scheme-specific price determination by IPART.
- ▼ **New schemes with a recycled water plant** could:
  - seek a scheme-specific price determination by IPART
  - agree to enter into unregulated pricing agreements, or
  - where applicable, be subject to the retail price determinations.
- ▼ **New schemes without a recycled water plant that on-sell water and/or sewerage services** would be subject to the system-wide wholesale prices unless:
  - the wholesale service provider and wholesale customer agree to opt-out of the determination and enter an unregulated pricing agreement, or
  - the wholesale service provider or wholesale customer seeks a scheme-specific price determination by IPART.

## PRICING APPROACHES

### Retail-minus prices should apply to on-selling



We have maintained our decision that **retail-minus pricing** is the appropriate pricing approach when a wholesale customer is purchasing Sydney Water's or Hunter Water's water and/or sewerage services to **on-sell to end-use customers**, regardless of whether the wholesale customer operates a recycled water plant.

However, we have decided not to apply the system-wide retail-minus prices to schemes where there is a recycled water plant. This is because, at this stage, it is not possible to include the impact of recycled water plants in system-wide prices. Rather, these impacts can only be assessed via scheme-specific reviews.

<sup>1</sup> The 2016 retail price determinations for Sydney Water and Hunter Water set prices for services supplied to a "Property", as defined in those Retail Determinations. In addition, the prices set under the Retail Determinations do not apply to services supplied to a "Large Non Residential Property" where the parties have opted-out of the Retail Determination pricing.

## We have not made any changes to our system-wide minus values

The table below outlines our final decisions on the system-wide minus values for on-selling water and sewerage services for the determination period from 1 January 2018 to 30 June 2021.

### Reasonably efficient competitor cost minuses (\$2016-17)

	Service	Final Report
Water	Retail (\$/customer/year)	129
	Reticulation (\$/km /year)	3,945
Sewerage	Retail (\$/customer/year)	80
	Reticulation (\$/km/year)	7,742

### Pricing for other services to recycled water plants



We have maintained our decision that the appropriate pricing approach for:

- ▼ supply of drinking water to top up a recycled water plant, and
- ▼ disposal of waste from a recycled water plant that is not used to on-sell sewerage services

is the prevailing non-residential retail prices.



We have decided not to include these prices in the system-wide wholesale price determination as they are already set in our 2016 retail price determinations for Sydney Water and Hunter Water.

### Scheme-specific reviews

We will accept requests to undertake scheme-specific reviews of wholesale prices. The Final Report outlines a timeframe of 4 months for the completion of scheme-specific reviews. Any determination of scheme-specific prices will apply from 1 January 2018 at the earliest. The steps associated with a scheme-specific review are outlined in the box below.

**Prior to requesting a review:** Wholesale customer and wholesale service provider seek to negotiate a price (or prices) for an existing or proposed wholesale water and/or sewerage scheme.

1. Where unable to agree a price, the wholesale service provider or wholesale customer applies to IPART for a scheme-specific review.
2. IPART advises on its decision to proceed with a scheme-specific review.
3. IPART advertises the price review.
4. IPART requests:
  - ▼ wholesale service provider submit a Wholesale Pricing Proposal, and
  - ▼ wholesale customer submit its views on the Pricing Proposal.
5. IPART releases a draft report and determination for stakeholder comment.
6. IPART holds a public hearing.
7. IPART considers submissions and issues a final report and determination.

## Scheme-specific reviews would consider facilitation costs

Our wholesale pricing framework allows for recognition of **facilitation costs**. Facilitation costs can be positive (costs) or negative (cost savings). For example:

- ▼ a positive facilitation cost may arise if a wholesale service provider needs to upgrade or extend its water or sewerage network to provide services to a wholesale customer, and
- ▼ a negative facilitation cost may arise if a wholesale customer produces recycled water that allows the wholesale service provider to defer its next scheduled water supply or sewage treatment augmentation.

Net facilitation costs should be included in wholesale prices where they are:

- ▼ **additional** to what the wholesale service provider would have otherwise incurred in the absence of servicing the wholesale customer, and
- ▼ **not reflected elsewhere** in the wholesale price or recovered via another charging or funding mechanism of the wholesale service provider.

A number of stakeholders have suggested that wholesale customers' **recycled water plants** are likely to be a source of negative facilitation costs (cost savings to the wholesale service provider).

While we have investigated the impacts of recycled water plants on Sydney Water's and Hunter Water's costs, we have not included facilitation costs in our system-wide prices. This is because, at this stage, they can only be determined with a reasonable degree of accuracy on a scheme-specific basis. Based on this conclusion, we have also decided that the **system-wide prices should not apply where there is a recycled water plant**.

## Unregulated pricing agreements



Wholesale customers and wholesale service providers can agree to opt out of IPART's determined prices through unregulated pricing agreements. This provides flexibility for parties to agree to prices that reflect scheme-specific characteristics without having to incur the costs associated with a scheme-specific review.