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Independent Pricing and Regulatory Tribunal
By email: [REDACTED]

To whom it may concern,

Submission to IPART's supplementary draft report: Review of wholesale prices for Sydney Water and Hunter Water

The City Of Sydney (the City) makes the following submission to the Independent Pricing and Regulatory Tribunal's (IPART): Prices for wholesale water and sewerage services, Sydney Water Corporation and Hunter Water Corporation, Supplementary Draft Report - Water.

The City's position has not changed. We do not support IPART's proposed wholesale pricing methodology. An independent broad review of the NSW water sector is required to ensure a holistic approach to the pricing of water and policy and regulatory settings are adjusted to ensure increased competition in the sector. IPART's proposed determination will dramatically increase costs for water recycling schemes without addressing distortions that increase the costs of water recycling relative to network supply. This review should precede any wholesale price determination to ensure the fledgling water recycling market survives.

This submission reiterates our previous submissions on this matter.

Importance of recycled water in the City of Sydney area

Recycled water is an important part of the 2017 Metropolitan Water Plan as it allows diversification of Sydney's water supply to secure water for a liveable, growing and resilient Greater Sydney.

Recycled water is also integral to the City's Sustainable Sydney 2030 vision. Our Environmental Strategy and Action Plan 2016 – 2021 describes our vision for a water sensitive city that achieves the following outcomes for our community:

- Efficient use of potable water and reduced demands on the water and sewerage networks
- Increased amenity and urban cooling through improved green space maintained by independent, climate resilient water supplies
- Improved quality of local waterways through reduced pollution discharged via wastewater and stormwater outlets.

These outcomes are increasingly important as we respond to the demands of unprecedented population and economic growth and changing climatic conditions including warmer temperatures and changing rainfall patterns.

The City is actively pursuing water recycling opportunities to drought proof our city, especially in our urban renewal areas. These areas provide the density and scale required for efficient investment in recycled water infrastructure as well as allowing infrastructure provision to be planned and installed at the time of development, which is cheaper and more efficient than retrofitting. Providing recycled water for non-potable water demand in our growth areas also delays or prevents augmentation of the centralised water and sewerage networks.

Water pricing and policy plays a critical role in ensuring that recycled water can be delivered. If the proposed wholesale pricing determination proceeds, recycled water schemes in the City of Sydney local area are unlikely to proceed, including in the Greater Green Square, Central to Eveleigh and the CBD areas.

A broad review of the NSW water sector is required

The City continues to recommend a broad review of the NSW water sector to ensure that the public benefits of recycled water are recognised and policy and regulatory settings are adjusted to address distortions and increase competition in the sector.

The Metropolitan Water Plan 2017 notes current pricing and regulatory settings can bias investment towards traditional service models even when alternatives including water recycling are cheaper.

IPART acknowledge a wider review is necessary to address market distortions and notes on page 27 of its supplementary draft report that *"stakeholders that have supported a broad review include Flow Systems, Permeate Partners, Urban Development Institute of Australia, City of Sydney, Institute for Sustainable Futures, Green Building Council of Australia, Sydney Water, Hunter Water and the Water Services Association of Australia"*.

Separate narrowly focussed reviews do not allow interrelated issues to be considered together to ensure optimal policy and regulatory settings and efficient investment outcomes. The key issues that warrant a broad review include:

- **Prices for centralised water and sewerage services are not cost reflective:** postage stamp pricing applies the same prices across the network in spite of cost variations between different areas. Cost reflective pricing would improve the competitiveness of recycled water schemes in areas with relatively high costs and reduce system-wide costs of water services. Other mechanisms could be used to address equity considerations if necessary.
- **Postage stamp pricing does not apply to recycled water schemes:** recycled water schemes are required to be self-funding rather than funded by the broader water and/or sewerage customer base, unless they can demonstrate avoided costs. This biases traditional servicing (no recycling) by incumbents as investment costs can be smoothed against a secure and much larger revenue stream, reducing costs of capital and revenue is not dependent on developer timeframes and schemes specific customer uptake.
- **Developer charges are only applied to recycled water schemes:** developer charges for water, sewerage and stormwater were set to zero in 2008 however they still apply to recycled water. This leads to higher costs to developers and the community if lower-cost recycled water solutions are not utilised.
- **Current pricing doesn't value water security benefits:** recycled water and desalinated sea water improve water security by reducing our reliance on dam water. However, recycled water scheme costs are not recovered by the broader customer base like the Sydney Desalination Plant. Incremental investment in small local recycled water schemes can prevent large investments such as a second desalination plant or dam augmentations in the event of a future drought.

A broad review should precede any wholesale price determination

The City maintains its position and does not support the proposed pricing methodology for the following key reasons:

- **There is no urgency to determine prices for a small market:** Existing non-residential prices are well understood and should be applied at least until a broad review is complete. WIC Act licensees make up approximately 0.5% and 4% of Sydney Water and Hunter Water's (2014/15) residential customer base. The costs to

administrate and the potential perverse outcomes of this price determination outweigh the benefits it seeks to achieve.

- **Flawed definition of wholesale services:** in November 2016 the City supported IPART's differentiation between recycled water production and on-selling of water and sewerage services and agreed that non-residential prices should apply to recycled water plant waste and potable water top-up services. The City is extremely disappointed that IPART has reverted back to proposing a retail-minus tariff for all water services (excluding potable water top-up) as this will dramatically increase costs of recycled water schemes, making them commercially unviable. The bill impacts outlined in table 6.7 of the supplementary draft report are significant, with a wholesale customers' bill for recycled water waste over 2017/18 to 2019/20, using non-residential prices of \$894,000 compared to \$2,847,000 using IPART's proposed retail-minus tariff.
- **Retail-minus is not cost reflective:** charges for recycled water plant waste disposal should reflect the net costs associated with Sydney Water or Hunter Water managing that waste stream. The proposed pricing does not include avoided or reduced augmentation costs nor does it consider reduced operation and maintenance costs resulting from reduced potable and wastewater volumes, flow patterns and loads on the centralised system that result with water recycling.
- **Transaction costs of scheme specific reviews too high to be a viable option:** facilitation costs are an important part of understanding when it makes financial sense to invest in water recycling. However scheme specific reviews would be lengthy, creating uncertainty and risk. Investment decisions would be required to align with development timeframes and it may not be practical to wait for a scheme specific determination. In addition, calculation of facilitation costs relies on provision of information from incumbent monopoly providers to calculate augmentation costs and savings, promoting monopoly power.

Conclusion

The City does not support IPART's proposed wholesale pricing methodology. An independent holistic review of the NSW water sector is required and should precede any wholesale pricing determination to ensure the water recycling market survives.

We would welcome the opportunity to discuss these important issues with you further. To arrange a meeting or for any questions in relation to this submission, please contact Lisa Currie, Manager Water Strategy on [REDACTED] or at [REDACTED].

Yours sincerely


Monica Barone
 Chief Executive Officer

