



18 October 2019

Dr Paul Paterson
Chair
Independent Pricing and Regulatory Tribunal
Level 15, 2-24 Rawson Place
SYDNEY NSW 2000

Dear Chair

Review of prices for WaterNSW Greater Sydney from 1 July 2020 – Issues Paper

Flow Systems Pty Ltd (Flow) is grateful for the opportunity to provide submissions in response to the Issues Paper published by the Independent Pricing and Regulatory Tribunal (IPART) in respect of its review of prices for WaterNSW Greater Sydney from 1 July 2020 (the **Review**).

Flow is a next-generation alternative utility providing water, wastewater and recycled water services in communities within the Sydney and Hunter Regions. Flow is a licenced retail supplier under the *Water Industry Competition Act 2006* (NSW) (**WIC Act**) and Flow Group companies hold network operators' licences under that Act. Within the Greater Sydney area, the Flow Group currently operates schemes at Pitt Town, Box Hill, Discovery Point, Shepherds Bay, Central Park and Green Square and retails water, wastewater and recycled water to over 6000 customers. With the right policy settings, Flow believes that private water utilities have an important role to play in helping communities with their water needs, for the benefit of all consumers.

Key Principles

In line with the matters that IPART must consider in making pricing determinations under section 15 of the IPART Act, Flow supports pricing that is cost reflective and champions pricing regulation that achieves the following objectives:

- **A Level Playing Field:** In times of climate uncertainty it is critical that pricing be set in such a way as to promote competition in the supply of water services. Effective competition fosters innovation, security through diversity, options for consumers and, in the longer term, protection for consumers from monopoly pricing.
- **Equity over time:** This means that costs of operating, maintaining and growing the network over the long term should be born as evenly as possible between generations (or at least pricing periods). Ensuring that prices in the current pricing period are sufficient to fund the medium to long run costs will ensure that later pricing periods are not left with disproportionately large burdens or, on the other hand, lower levels of service and water security.
- **Effective price signalling to drive long term efficiency and the need to maintain ecologically sustainable development:** Pricing mechanisms should encourage activities in the market generally

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that efficiently improve water security and ecological sustainable development, to offset increasing levels of climate and environment risk in the system.

Application to the current review

Flow is pleased to provide the following specific comments in relation to the Issues Paper:

Chapter 10 – Cost pass-throughs

We agree with IPART's preliminary view regarding the application of its criteria for pass-through mechanisms to WaterNSW's requested "catastrophic event" and "regulatory event" pass through events. At the very low materiality threshold proposed, WaterNSW should (as a private operator in its shoes would) take such steps as it needed in its business to plan for such contingencies. WaterNSW should retain an incentive to avoid the likelihood of occurrence and the impact of events through planning, preventative action and regulatory influencing. It is also important that sufficient revenue be allowed for WaterNSW such that it can take steps to properly manage those risks. Failure to do so increases risk in the system overall, which is contrary to the interests of equity over time.

In addition, allowing risks to be dealt with as a pass-through (especially at a low level of materiality) increases barriers to entry of alternative water sources that could more efficiently manage that risk. That is, pass through mechanisms increase the barriers to entry for technologies and businesses now that might be marginally more expensive than current infrastructure (assuming a pass through for catastrophic events is allowed) but which are less exposed to the risk of a single catastrophic event and could avoid or mitigate the need for any pass through.

Regarding the restructure of the Shoalhaven Transfer, Flow considers it reasonable that the pass through recover all of the efficient costs (including under-recovery and future electricity costs) of the transfer.

Conclusion

We thank IPART for the opportunity to provide our feedback to the Issues Paper and look forward to engaging further in respect of the Review.

If you or IPART have any questions regarding Flow's submission, please do not hesitate to contact me by email at [REDACTED]

Yours faithfully

[REDACTED]

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