



24 April 2020

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 – Draft Report

Flow Systems Pty Ltd (Flow) is grateful for the opportunity to provide submissions in response to the Draft Report 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) 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

As set out in our 18 October 2019 submission, Flow supports pricing that is cost reflective and champions pricing regulation that achieves a level playing field, equity over time and effective price-signalling to drive long term efficiency and ecologically sustainable development.

Application to the current review

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

Fixed price vs variable price

Flow firmly believes that competition in water supply, distribution and retail services will lead to the best long term outcomes for communities and individuals in New South Wales. Wastewater recycling is proven technology used across the world to supplement and compliment other water sources. Current wastewater recycling models provided by the private sector can help now to make Sydney more resilient. Getting the policy settings right to foster competition, private investment and innovation will also facilitate other technologies – both proven and emerging – that will further ensure a sustainable and liveable city for all its residents.

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To get to the right place, water needs to be valued at all points in the supply chain so that supply augmentation as well as demand behaviour can respond to pricing signals.

Relevantly for the current review of WaterNSW's prices, bulk water should be ascribed a meaningful value. The way that prices are set for bulk water purchased from WaterNSW by Sydney Water (and a small number of other customers) means that there are no meaningful price signals that can be responded to by the "source" market for water, that is, the purchasers of bulk water from WaterNSW as well as providers of demand management or demand offset solutions elsewhere in the value chain (for example, recycled water schemes within the Sydney Water network).

The reason price signals for bulk water consumption are important include:

- Those price signals flow through the value chain due to the "avoided cost" framework for valuing demand management options. When considering the benefit or cost of a recycled water scheme (including when considering the level of what IPART has previously referred to as "facilitation costs" of such a scheme), unless the value of water saved can be properly taken into account, part of the value of such schemes is left unaccounted for. A largely fixed bulk water cost means that incremental offsets to bulk water purchases cannot be properly taken into account.
- Without proper usage pricing signals, Sydney Water is not incentivised to optimise their own recycled water schemes. For example, at page 101 of IPART's draft report in respect of Sydney Water's retail prices, IPART explains that Sydney Water has indicated that no additional operating costs are experienced in its recycled water schemes due to drought. However, if price signals regarding the value of bulk water usage were being taken into account by Sydney Water, then it would be recognised that increased levels of top up (or even 100% charging of a purple pipe network with drinking water, as sometimes does occur in Sydney Water recycled water schemes) experienced during drought periods should lead to increased costs of providing that purple-pipe service. Maintaining a very high proportion of fixed cost at the bulk water end of the value chain means that the value of drinking water usage and abatement of that usage is not being properly taken into account.

While Flow understands IPART's methodology of trying to match fixed costs with fixed revenue, by overlooking the potential for bulk water pricing to send price signals to potential purchasers of alternative water sources, the Draft Report fails to recognise the value that competition could bring to the bulk water market. Setting a high fixed price for bulk water means that there is no incentive for Sydney Water to find and reward providers or solutions that offset the need for it to draw on WaterNSW's bulk water supply, nor even to find efficiency in their own recycled water schemes.

Flexible usage price

As set out in our submission to the Sydney Water pricing review draft report, dated 27 April 2020, Flow also submits to this WaterNSW review that flexible usage prices do not incentivise the optimal infrastructure and capital decisions. Ensuring that the costs of climate and rainfall uncertainty are priced in allows for better long term infrastructure decisions, including decisions to increase the resilience and distribution of Sydney's water sources.

Conclusion

We thank IPART for the opportunity to provide our feedback to the Draft Report 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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