



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 Sydney Water 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 Sydney Water 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

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 Draft Report:

Flexible water usage prices

Flow welcomes the level of consideration that IPART has given to the way in which drinking water usage should be priced in an environment of increasingly volatile rainfall patterns. Flow continues to maintain that it would be more efficient and would send more stable and consistent price signals to the market to price in

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that volatility within a single tariff. In that regard, we wish to correct the record regarding what was said at the November public hearing,¹ where Flow's position was stated as follows:

*"From Flow's perspective, we support the call to properly value or properly price the value of water in the long term. We are probably a little bit different [from PIAC] in that we accept that scarcity pricing is probably needed now to moderate some behaviours. But longer term we would like to see the pricing reflecting the value of water as a long-term resource."*²

In relation to efficiency, pricing in the costs of drought response to the base tariff would allow for the balance between preventive and reactive maintenance to be set at the most efficient level and should also inform the economic level of water conservation.

The "market" we refer to here is the market for drinking water demand management. This includes drinking water alternatives, such as recycled water, where that water supply offsets drinking water usage. It also includes other drinking water mitigation options, such as efficient irrigation systems, proper rainwater tank maintenance and household appliances. A flexible pricing structure only incentivises those demand management activities during a drought event. Conversely, the decision making, planning and implementation of projects that can have a meaningful impact (such as community-based water recycling schemes) as well as legislative and policy changes that may have an even greater impact (such as changing the permitted uses of high quality recycled water) need to occur before the drought event is upon us. The flexible pricing proposed by IPART (as opposed to retaining a single tariff methodology for the whole of the pricing period) does not allow the stability in pricing needed for meaningful decisions to be made.

Wastewater price transparency and reflection of long run cost

Flow supports IPART's work with Sydney Water on clarifying the long run marginal cost of the provision of wastewater services on a catchment by catchment basis. We agree that this information is critical in making informed choices about how to best meet the wastewater servicing needs of Sydney. More generally, Flow continues to support wastewater pricing that reflects a long run cost of providing the service, taking into account growth.

The risk of "inefficient bypass"³ in low cost areas is significantly overstated by Sydney Water. They types and extent of projects possible in lower cost areas of the operating area are nowhere near extensive enough to create any material impact on the long term utilisation of existing Sydney Water assets. This is not a matter of competitors "cherry picking" these areas. It is customer demand (put in another way, "willingness to pay") that drives location of recycled water schemes. For example, the City of Sydney wants a way to reach its sustainability goals, not a way to bypass wastewater assets.

Furth more, the current Operating Licence requirements to report current and projected capacity constraints are nowhere near detailed or granular enough to counter the risk of underinvestment. Further detail on the shortcomings of those requirements can be found in Flow's submissions made during Sydney Water's *Operating Licence* review in 2019.⁴

Revenue should be allowed to fund Operating Licence compliance

In a related matter, Flow Systems encourages IPART to reconsider what we understand to be their position on funding the work that Sydney Water needs to do to comply with clause 8 of its current *Operating Licence*. Since the public hearings late last year, Flow has been informed by representatives of Sydney Water that no revenue has been approved to fund the work required to set up the information technology systems to fully

¹ We do not think IPART is correct in saying that Flow "supports" scarcity pricing, as stated on page 53 of the Draft Report.

² IPART, Sydney Water Public Hearing 26 November 2019, Transcript p 95

³ IPART Draft Report, p 72

⁴ See Flow Systems' submission to IPART dated 13 February 2019

and properly carry out the work set out in clause 8 of its *Operating Licence*. If that is the case, Flow asks IPART to revisit its consideration of the relevant costs, so that the objectives of clause 8 can be properly met.

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 the Tribunal 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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Flow Systems Pty Ltd