



8 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 Hunter Water Corporation 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 Hunter Water Corporation 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 Hunter Water area of operations, the Flow Group currently operates schemes in Huntlee and Cooranbong and retails water, wastewater and recycled water to over 600 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 (including customers of Hunter Water).

### **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:

#### *Chapter 5 –Capital Expenditure*

Flow supported Hunter Water's approach to determining its capital expenditure following a review of its organisational risks, including for works to ensure reduction of water losses and compliance with environmental protection requirements.

We appreciate the rigour with which IPART has investigated Hunter Water's capital expenditure proposal, but query the finding by Aither that extending treatment plant chemical containment and safety upgrades across sites is overly risk averse. This conclusion and the acceptance of it by IPART does not seem to be in line with good corporate practice when applied to environmental compliance. The board of a private organisation in a similar position to Hunter Water would find it difficult to conclude that containment and safety works, if found

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wanting by the EPA at one site, should not be reviewed and brought to an acceptable standard at all sites, regardless of whether or not there had been a regulatory edict to do so.

#### *Chapter 10 – Recycled Water prices*

Recycled water schemes offer a real opportunity to improve liveability and water security in communities throughout the Hunter Water area of operations. It is critical that the opportunities to provide wastewater recycling are open to effective competition so that consumers can enjoy the benefits of that competition in their own communities.

In line with our submissions to the Issues Paper, the pricing recycled water pricing framework adopted by IPART in 2019 is fundamentally anti-competitive. By allowing recycled water scheme costs to be recovered from the general customer base, IPART's pricing framework constitutes a very high barrier to entry for community-level recycled water schemes. Take, for example, a scheme like that at Huntlee. That scheme must recover all of its capital and operating costs from the (relatively small) Huntlee community. However, that scheme provides least cost wastewater servicing to that area (or at least has allowed significant net avoided costs for Hunter Water). If Hunter Water had undertaken that scheme, it would be able to recover the cost of that scheme across its entire customer base. Huntlee is not connected to Hunter Water's wastewater infrastructure, and doesn't purchase wholesale wastewater services from Hunter Water (so the concept of "facilitation costs" discussed in IPART's wholesale water pricing Final Report cannot apply to it). The removal of economic ringfencing around Hunter Water and Sydney Water's recycled water schemes means that private investment in those schemes is stymied, even though that investment benefits all users of the system by avoiding costly additions to Hunter Water RAB and operating costs.

#### **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]

Mark Edler  
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