IPART SUBMISSION - Regulating the Water Businesses 2020

Kingspan Water and Energy
October 2020

Scoping

Thank you for the opportunity to make a submission. We consider IPART has strived to seek better outcomes for the NSW community and that this is an important opportunity for IPART to improve its tools for delivering those benefits.

This review will identify improvements in how we regulate these 'monopoly' water businesses, to make the people of NSW better off. We are seeking feedback on the scope and timing of this review by 30 October 2020. – IPART 2020

Submission

How does IPART measure 'better off'?

Water businesses must work within a set of legislated economic, financial, environmental and social objectives. In order to ensure that the people of NSW are better off, IPART should consider a systems view of urban water management. IPART should also invest in performance targets and performance measures that quantify those outcomes and include these in the operating licence based on advice from the relevant government departments.

Urban Water Cycle Solutions and Kingspan Water and Energy have recently published The Alternative Water Strategy for Sydney. This report presents clear examples of the need to consider whole systems when considering public benefit. It does not appear that IPART has considered the impact of the BASIX land use planning policy on the efficiency of water services in Sydney. The actions and investments of the water businesses should support and reference the land use policy.

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Alternative Water Strategy for Sydney

The key finding of the report is that more efficient solutions for water management exist. Up to 2050 an improved BASIX and variable price structure would deliver benefits of $7B in community benefits compared to Business as Usual, and $11B compared to not having BASIX at all.

The key insight is that a combination of supply and demand management is more efficient than relying entirely on supply solutions, when considering whole of society benefits. These demand management solutions include behaviour change, water efficient appliances and rainwater harvesting. An example of these benefits is the 5 year deferral of the multi-billion dollar desalination augmentation, which can be attributed to the BASIX policy.

The inclusion of rainwater harvesting as a stormwater management solution has both infrastructure and demand management benefits and is an efficient decentralised infrastructure asset that improves the performance of the whole system.

This investigation has identified water and sewage transfer distances of over 50 km across greater Sydney. Transporting a heavy liquid over these distances, and significant changes in elevation, represents high capital and operational costs and potential economic inefficiencies. In some parts of Greater Sydney, the shadow cost (medium run marginal cost) of delivering water and sewage services is greater than $16/kL, which is nearly 800% more than the household usage tariff.

As a result of the analysis the report recommends continuing the BASIX program, considering an improved version of BASIX and considering a more efficient pricing structure for water and sewage services.

The most recent IPART price determination for Sydney Water included a consideration of the spatial variation in costs of wastewater treatment across Sydney. IPART should consider the implications of spatial variation in water service costs and wastewater service costs in considering more efficient ways to deliver water and wastewater services.

The assumption that costs of service delivery are the same for the whole of greater Sydney is clearly wrong, and yet it is fundamental to the Economic Level of Water Conservation methodology currently applied by IPART.

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The Building Block Method of Determining Notional Revenue

The building block method bases the revenue of water businesses on primarily a return on capital in the Regulatory Asset Base (RAB), depreciation and operating expenses. There is an apparent incentive for the water businesses to increase the RAB to increase long term revenue for the water business. For example, when considering a demand management program that reduces the need for future water infrastructure this would result in a reduction in the RAB and a reduction in future revenue.

In contrast a supply augmentation would increase the RAB and increase future revenue. It is difficult to see any financial incentive to recommend a demand management program even if that would result in a more efficient service.

This could result in a conflict of interest for the water business , in that it is recommending infrastructure investment decisions which will affect its future revenue.

IPART should consider if the Building Block method is in the best interests of the people of NSW.

Setting measurable Performance targets in the Operating Licence

It appears the Sydney Water regulatory asset base will increase from $13B in 2012 to over $20B by 2021-22. Is this 50% increase sufficiently reflected in an increase in benefits to the NSW community? Should productivity targets be put in place to ensure the interests of customers and the NSW community are protected?

If water businesses are to play a role in stormwater management this should be reflected in performance targets for contaminants, flow regimes and volume management, based on ARR 2019. IPART should consider a detailed review of the impact of directly connected impervious areas on local waterways.

IPART approved the Economic Level of Water Conservation but the impact of the policy on water security and the economic efficiency of water service delivery requires further consideration. A review of the Economic Level of Water Conservation was required in the recent Sydney Water Operating Licence review and this should form an element of the regulation of water businesses review. Advice on appropriate targets should be sought potentially reflecting the BASIX targets.

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Conclusion - Scoping Issues for Review

Key issues for consideration include

1. An urban water systems framework for evaluating investment and policy decisions
2. Spatial costs driving efficient water services.
3. The building block method and the need to separate revenue outcomes and infrastructure investment advice and decisions.
4. Productivity measures and targets
5. Stormwater contaminant, flow and volume performance targets for water businesses
6. A review of the Economic Level of Water Conservation policy based on its impact on water security and efficient service delivery

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