



Dr Paul Paterson
Chair
Independent Pricing and Regulatory Tribunal (IPART)
Level 15 – 2-24 Rawson Place
SYDNEY NSW
VIA EMAIL: ipart@ipart.nsw.gov.au
Tuesday October 28, 2019

Dear Paul

Re: Review of prices for Sydney Water from 1 July 2020 – Issues Papers

Thank you for the opportunity to respond to Sydney Water’s Pricing Review.

Open Cities Alliance is a national peak association for Next-Gen infrastructure and services. We are working with our industry and government members to create policy and market setting that enable more sustainable, resilient and affordable utility and mobility services for communities and businesses. We are advocating for Integrated Water Management (IWM) and greater competition and transparency in water markets. This letter submission represents the views of our members.

It is of significant concern to Open Cities members that a decade on from the end of the Millennium drought, the State of NSW has not invested in scaling-up next generation (Next-Gen) integrated water management (IWM) measures proven to drought-proof communities and reduce costs. Drought response measures must be part of Sydney Water’s essential plans and included in their pricing proposal.

In 2019, NSW is again in drought, yet progress to transition Sydney to a sustainable, liveable, affordable future has not only slowed but been reversed.

Open Cities maintains the biggest barrier is the retail minus tariff framework introduced in January 1, 2018. Which has killed competition by increasing the cost of recycled water scheme operations by 400 to 1200 percent in urban regeneration developments. As a result, not one new application for a Water Industry Competition Act (WIC Act) licence has been made this year.

Catalysing competition, creating a level playing field, supporting ecological and sustainable development, and ensuring intergenerational equity must be a key outcomes from these pricing reviews.

Competition remains absolutely critical to drought-proofing NSW and delivering more sustainable water management solutions and customer choice. A competitive water market is a requirement to ensure families and businesses are not locked into costly, gold-plated and outdated water management services that fail to enhance liveability, tackle climate change and heat island effect.

The lack of innovation and competition in the NSW market is impacting negatively on the health, productivity and efficiency of NSW communities who would be better served with more efficient water management solutions at the household and precinct-scale.

Pricing mechanisms must improve water security and sustainable development to offset climate change- associated risks.

Pricing mechanisms should also encourage households and businesses to be both producers and consumers - or prosumers. In the same way new solar and battery technologies and innovations are enabling homes and businesses to participate as prosumers, so too will water recycling technologies.

Open Cities is concerned about the push away from variable charges back to fixed charges which assumes all households discharge the same amount (150kL per household). This fails to recognise usage and discharge reductions and efficiencies achieved by customers in precinct-scale recycled water utilities for example, or buildings that embrace new self-sufficient water technologies.

A dynamic water market should not only enable precinct-scale IWM but also the many new home-based technologies that are transforming the water market in other counties such as air to water technologies that produce high-quality water for drinking, agriculture and industry or the award-winning [Dutch device](#) the size of a Tesla battery that recycles 85 percent of total in-house domestic water used.

Modernising our 21st century water network must be a priority to ensure families and businesses can reap the benefits of new water infrastructure solutions that are getting smaller and more efficient.

Competition

An Independent Market Operator (IMO) company is required to create a logistics framework for the operation of a new market and can manage data sharing arrangements on behalf of the entire market. A similar entity to the *Gas Market Company*, for example, can ensure industry-wide contribution, set the rules of engagement, and ensure the release of right information.

Open Cities is concerned Sydney Water remains a long-term capital planner. The obligation for Sydney Water to be a successful business cannot be reconciled with it also being allocated sole responsibility for water conservation and planning under its operating licence.

It is well established in micro-economic reform that the incumbent or dominant market participant cannot also hold the role of system planner. This is because the system operator needs to be independent from all market participants. Without this independence, the system planner may not give priority to the best long-term interests of consumers and instead prioritise being a successful business.

Open Cities believes an Independent Market Operator (IMO), separate to IPART, can assist with a whole-of-Government solution to addressing lack of competition, transparency and level playing field in the water market. The aim of an IMO is to deliver new homes quicker, more affordably and with a safe and reliable water supply in a competitive and contestable environment. The establishment of an IMO capable of setting the rules of engagement between centralised and precinct-scale solutions, delivering a level playing field, and ensuring innovative approaches to water management are implemented, is essential.

Please refer to [Open Cities February 2019 Response to Sydney Water's Operating Licence submission](#) and the recommendation to establish an IMO.

Current continued investment in large scale infrastructure

Current mechanisms are not incentivising alternative water management approaches that are more efficient and sustainable. Despite Sydney's dams dropping to below 50 percent in August for the first time since 2004 – investment in recycled water has not occurred neither has there been investment in IWM.

In the five years leading up to 50 percent dam level benchmark, Sydney Water had spent over \$30 million in residential demand management programs – nearly \$5.5 million in business demand management programs and was investigating recycled water schemes.

In the past five years Sydney Water's investment in demand management has been minimal despite dropping dam levels. They have also failed to invest in recycled water for new development, and the Hoxton Park scheme, built in 2012, is still supplying potable water through the recycled water pipes.

The current price submission proposes a substantial increase in capital expenditure to respond to the deterioration in environmental performance of Sydney Water's wastewater assets (overflows), but Sydney Water have failed to invest in solutions such as local recycled water that have been proven to reduce pressure on large and aging assets. This investment must be tied to next-gen IWM solutions.

Pricing Discrepancies: Retail Minus Tariff

IPART introduced the retail minus wholesale tariff framework in response to what is described as cherry picking services by the private sector.

Open Cities argues the fledgling WIC Act competitive market with some 5,000 customers, represents an insignificantly small proportion of prosumers who are reducing their drinking water use by up to 70 percent through recycling and driving substantial benefits to the network.

This customer set is a drop in the ocean when compared to Sydney Water's five million customers and the two million properties with a connection available to Sydney Water's drinking water and wastewater services.



Open Cities believes there is a discrepancy in IPART’s recycled water pricing that is unfair and demonstrates a flaw in pricing methodology.

At the moment, there is a huge discrepancy between groups of water users using the same amount of water and discharging the same amount of wastewater. These large groups pay significantly varied costs for the same service which is unfair and proves the retail minus pricing methodology is fatally flawed.

EXAMPLE

As outlined in Table 5.2 below (on page 6) from IPART’s Draft Report into Wholesale Pricing page 5, a commercial tower pays approximately half the amount of a residential tower using the same amount of water and wastewater. Residential customers pay approximately \$6.20/kL for combined water services, while the commercial customer pays approximately \$3.30/kL. Under this current methodology it would appear a cross subsidy is occurring.

Table 5.2 The difference between non-residential prices

		
Description	Commercial tower	Residential tower
Units	100 businesses	100 apartments
Meter connection	80mm	80mm
Service charge basis	Meter based	Dwelling based
Water usage	16,000kL	16,000kL
Discharge factor	75%	75%
Annual charge in Sydney	\$53,312	\$99,355 (\$46,043 more)
Annual charge in Newcastle	\$58,143	\$83,894 (\$25,751 more)

Source: IPART analysis.

Climate Assumptions

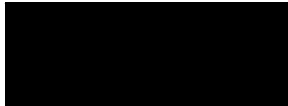
Sydney Water's proposed operating expenditure for the 1 July 2020 pricing period relies on past 'average' weather conditions which do not take into account adjustments for the current drought and climate change in the medium term.

Investment in drought response measures must be part of Sydney Water's core planning and articulated in the pricing proposal. Investment must be made available for Sydney Water to transition to IWM to mitigate drought and climate change risks. Sufficient revenue is also required to send positive signals to new efficient market entrants (WIC Act providers and new technologies) and to maintain intergenerational equity.


Conclusion

Open Cities believes IPART has an opportunity through this pricing review to begin the transition to next century IWM approaches that will mitigate the drought, respond to the climate and biodiversity crisis, and create competition in a level playing field. Open Cities welcomes the opportunity to meet with IPART to discuss this submission.

Yours sincerely,



Lisa McLean

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