



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
Monday 27 April, 2020

Dear Paul

Re: Review of prices for Sydney Water from 1 July 2020 – Draft Report

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

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 settings 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.

Open Cities members continue to call for the scaling-up of drought and resilience response measures including Integrated Water Management (IWM) and local water recycling, as part of Sydney Water’s essential plans and reflected in their pricing. In its October 2019 submission on Sydney Water pricing¹, Open Cities highlighted that progress was urgently needed to transition Sydney to a sustainable, liveable, affordable future through investment in next generation (Next-Gen) circular economy IWM measures. Both are proven to both reduce costs and drought-proof communities.

The catastrophic fires and drought in summer 2019/20 demonstrate why water resilience is an urgent priority for the State. The 1,000 Olympic swimming pools of wastewater flushed out to sea daily² also represents a huge opportunity for Sydney Water to embrace the circular economy and begin the scale-up of recycled water to secure local resilience.

Open Cities advocates that competition, creating a level playing field, supporting ecological and sustainable development, and ensuring intergenerational equity must be key outcomes of the pricing review. A significant opportunity to realign Sydney’s water supply for the next generation cannot be missed in this pricing round.

¹ IPART 191018 Open Cities Response Sydney Water Price Proposal 2020-24 FINAL

² Open Cities analysis

Open Cities members would like to see a balanced water:recycled water price ratio to incentivise investment in water resilience infrastructure and services, affordability and innovation.

Retail minus framework

Open Cities continues to maintain the biggest barrier is the retail minus tariff framework introduced in January 1, 2018 for water Industry Competition Act (WIC Act) licensed providers. Which has killed competition by increasing the cost of recycled water scheme operations by 400 to 1200 percent in urban regeneration developments³:

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.⁴

Valuing wastewater and recycling to deliver resilience

The Draft Report appears to reverse a trend of increasing water user charges recognising that people need more control over their bills, Open Cities welcomes this. However, the report does nothing to prioritise or promote recycled water.

The proposed price changes will increase the cost for people who are already recycling water. So Central Park, Barangaroo and Green Square customers, for example, will pay more now even though they are recycling every drop they can. These customers, who use less than 50% water than an average customer every day, have no remaining avenues to save water in response to the proposed water scarcity price increases. Therefore, Open Cities believes dispensations should be provided for water recyclers and licensed WIC Act providers.

Open Cities welcomes a shift back towards variable charges from the previously flagged fixed charges (which assumes all households discharge the same amount - 150kL per household), however more consultation is required to value recycled water customers and the positive benefits they deliver in preserving drinking water supplies and securing resilience. 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 must be recognised in pricing.

³ IPART 191018 Open Cities Response Sydney Water Price Proposal 2020-24 FINAL

⁴ Ibid

Promoting water recycling and reuse to keep water locally for greening, tackling heat island effect, improving amenity and securing resilience must be a priority as we prepare for a climate changed future.

The current pricing system should take into the account the impact of aging centralised wastewater treatment systems that are discharging high value, but low quality primary treated effluent through Sydney's ocean outfalls. Outfalls at Malabar and North Head are the largest in Australia and discharge significant pollutants including heavy metals and microfibre/microplastics that can be captured, managed and reused to drive new revenues for NSW. Peer reviewed research by the Clean Ocean Foundation identifies large net benefits to Australia's economy if the Malabar and North Head if the two outfalls were upgraded to recycle Class A water⁵.

The pricing system continues to be geared towards linear economic approaches to water provision. Pricing that understands and reflects circular economy principals needs to be developed in consultation with the emerging industry.

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.

Flexible Pricing

Sydney Water now has the ability to charge \$3.12 per kilolitre at the beginning of the drought as water becomes more costly for them to supply under their current business model. This is a big increase on the current \$2.30 per kilolitre. Open Cities believes pricing levers need to be used in conjunction with more competition and investment in recycled water and IWM, including new circular economy businesses and services.

In addition, the new prices would benefit from more discussion with industry to consult about how to get the right signals out of the community, for example, how will they incentivise the market.

When considering structural changes to the price, IPART has previously conducted separate investigations, particularly:

⁵https://www.researchgate.net/publication/333776616_Coastal_Outfall_System_Upgrades_in_Australia_Benefits_Costs_and_Improved_Transparency_-_Final_Report

- The 2004⁶ investigation initiated by the Millennium Drought – where the report recommendations led to the introduction of a step price for single residential homes in IPART’s 2005 price determination (although this was subsequently removed at the 2008 determination, due to an assumed improvement in the security of supply⁷).
- The 2011-12 review of price structures for metropolitan water utilities, which led to changes in the price structure in the 2012 determination, particularly for fixed water and wastewater charges for multi-residential dwellings.
- The 2015-2017 Wholesale pricing review, which resulted in the retail minus price structure.

The complexities and tradeoffs identified in each of these reviews clearly illustrates why a comprehensive and inclusive process is required when considering structural pricing changes.

Open Cities supports the current move to greater flexibility in pricing. However, we believe that a predictable, consistent price structure that incentivises investment in future proofed integrated and flexible solutions is required. In particular, further work should be conducted into:

- Flexible wastewater pricing for customers⁸ who opt to monitor their wastewater discharge, rather than accept an “assumed value”. This would be in line with current considerations available for “low impact” stormwater customers⁹
- Considers no increase in price for customers who demonstrate sustained substitution of potable water
- Review into the removal of the retail minus tariff framework
- Continued call for a reference group broader than water utilities including planning, councils and other stakeholders to discuss and analyse the options proposed in the draft report.

Innovation and prosumers

Open Cities members also believe pricing mechanisms should support the evolution of the consumer market towards “prosumer”. Technology and the digital transformation are fundamentally changing infrastructure and services enabling people to be prosumers - both producers and consumers. 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.

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.

⁶ <https://www.ipart.nsw.gov.au/Home/Industries/Water/Reviews/Metro-Pricing/Investigation-into-Pricing-Structures-to-Reduce-the-Demand-for-Water-in-the-Sydney-Basin-2004>

⁷ “IPART decided to phase out the inclining block tariff because concerns about water scarcity have receded due to recent rains and the construction of the desalination plant.”

https://www.ipart.nsw.gov.au/files/sharedassets/website/trimholdingbay/fact_sheet_water_4_-_review_of_sw_prices_from_01_july_2008_-_jennie_cooper_-_10_july_2008_-_website_document_version.pdf

⁸ The 2016-2020 price review for Sydney and Hunter water prices considered variable wastewater charges for residential customers. The main argument against moving to variable charges was the lack of metering. In the case of WIC customers incorporating recycled water treatment this argument does not apply: discharge from the recycled water plant is metered and could therefore be used as a measure of discharge from customers.

⁹ which was introduced in from 1 July 2017 through the 2016 determination,

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.

Current continued investment in large scale infrastructure

Open Cities members would also like to see new mechanisms to incentivise alternative water management approaches that are more efficient and sustainable - investment in recycled water and IWM should be prioritised. In our previous submission Open Cities highlighted:

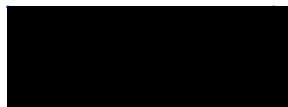
“In the five years leading up to 50 percent dam level benchmark, Sydney Water had spent over \$30 million in residential demand management programs – nearly \$5.5 million in business demand management programs and was investigating recycled water schemes. In the past five years Sydney Water’s investment 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.¹⁰”

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). Open Cities would like to see Sydney Water invest in the scaling up of local recycled water that are proven to reduce pressure on large and aging assets. This investment must be tied to next-gen IWM solutions.

Conclusion

Open Cities believes IPART has an unprecedented opportunity through this pricing review to open the NSW water market to more innovation and circular economy water approaches that will ensure Sydney has a competitive, affordable water market that will deliver resilient, respond to the climate and biodiversity crisis, and create a level playing field. We welcome the opportunity to meet with IPART to discuss this submission.

Yours sincerely,



Lisa McLean

[Lisa McLean](#)

CEO

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¹⁰ IPART 191018 Open Cities Response Sydney Water Price Proposal 2020-24 FINAL

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