

11 October 2018

The Chief Executive Officer
Independent Pricing and Regulatory Tribunal of NSW
PO Box K35, Haymarket Post Shop
Level 15, 2-24 Rawson Place
SYDNEY NSW 2000

Sent via email to:
cc:

[REDACTED]
[REDACTED]
[REDACTED]

ATTN: Anthony Rush

Dear Anthony,

Solo Water's submission to IPART's review of Central Coast Council water pricing

Solo Water (SW), and its subsidiary, Catherine Hill Bay Water Utility (CHBWU), respectively hold the Water Industry Competition Act (WICA) Retail Supplier (15_036R) and Network Operator (16_035) licences for the Catherine Hill Bay Water Utility scheme. Thank you for this opportunity to contribute to IPART's review of water pricing in Central Coast Council (CCC) region.

In the CHBWU scheme, we source bulk potable water from CCC and transfer this water approximately 7 km using our own assets to the CHB scheme storage tanks. From here we supply the water to our own customers at CHB for drinking water, as well as providing backup of the local recycled water supply system servicing the scheme.

The CHBWU scheme is located in a relatively remote area at the southern extreme of Hunter Water's area of operations. Due to its location the area is unlikely to have been serviced by Hunter Water in the short to medium term. This area could only be serviced using a decentralised model that maximises local water recycling offered by WICA licence holders like Solo Water. Implementation of the scheme would not have been possible without the support of CCC to provide bulk water services to CHBWU.

The CHBWU scheme has only been operational for around 12 months and the default pricing structure for the scheme has CHBWU purchasing bulk water from CCC at the standard non-residential retail water rate of \$2.29/kL. When we apply our local water utility drinking water charges (currently \$0.71/kL) on top of the bulk water purchase price, the end result is our customers at CHB are charged a higher rate for drinking water compared to nearby areas. The price of \$3.00/kL for drinking water is not high when benchmarked across regional areas or nationally, but is relatively high in comparison to the urban areas of the Central Coast, Sydney and Hunter regions.

In the interests of our valued customers, we have in the past and will continue to pursue a wholesale price discount for bulk water purchased for the scheme so that we can pass this saving through to our customers.

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WICA licence holders represent a completely new category of customer for Councils and incumbent water authorities. Attempting to manage WICA licence holders within the historic context as either a residential or non-residential customer (commercial bulk water connections, if you like) is not considered to be the most efficient method to operating the water market in NSW.

It is our current view that a new category of wholesale water customer needs to be created that takes into account the essential services being provided and the infrastructure owned and operated by WICA licence holders.

In compiling this submission we have considered and responded to the following key questions posed to us by IPART:

- The details of the supply arrangement between the Council and the CHB scheme;
- Should IPART set maximum prices for the services the Council supplies to WICA licensees now, as part of this review? If so, why should we set these prices? And, what is the appropriate price (or prices)?

These questions are addressed separately below.

The details of the supply arrangement between the Council and the CHB scheme

The current supply arrangement between Central Coast Council (CCC) and the Catherine Hill Bay Water Utility (CHBWU) scheme is as follows:

- CHBWU sources bulk potable water from CCC via a 200 mm metered connection point located at Central Coast Council's Kanangra Drive Reservoir Site.
- CHBWU owns, operates and maintains the Bulk Water Pump Station, the 7 km long Bulk Water Transfer Main and the easement within which the main lies, downstream of the connection point, that is used to transfer bulk water from CCC across to the CHB scheme storage tanks;
- CHBWU then uses this water to supply drinking water Solo Water retail customers, as well as provide back up water for the onsite recycled water system.

The current pricing arrangement for this bulk water connection is based on a standard non-residential water customer, as follows:

- CHBWU (and/or the developer's) are charged a developer contribution based on the estimated demand placed on the bulk water system, taking into account the demand reduction achieved by water recycling. This capital contribution is charged in stages based on CCC's standard per ET capital contribution rate for water.
- In addition to the developer contributions, CHBWU (and/or the developer's) funded 100% of the capital cost of the new works required for the scheme, including the Bulk Water Pump Station, Bulk Water Transfer Main and easement.
- CCC charges CHBWU a standard fixed annual fee based on a 200mm water meter.
- CHBWU is charged the standard water usage rate, which is currently \$2.29/kL.

The specific scenario of bulk water supply to a WICA licence holder that is supplying essential services to downstream small residential customers is a new category of supply and does not fit into the conventional categories of residential and non-residential. A couple of key differences are:

- CHBWU owns significant assets downstream of the connection point and we incur costs to operate and maintain the bulk water transfer system to deliver water into the CHB scheme.
 - Whereas under the conventional model Council would own all assets up to the front gate of the customer's premise.
- Council charges CHBWU the standard water usage rate of \$2.29/kL for all water that passes through the bulk water meter, including for those uses that are typically classified as non-revenue water, like water used in flushing, fire fighting, stolen water, system losses and community water usage.
 - Whereas under the conventional model Council would not normally receive revenue at the full retail rate for water used for flushing, fire fighting or other non-revenue water uses.
- Costs incurred by CHBWU need to be added to the purchase price of the bulk water and the total cost is recovered from customers inside the scheme, who are small residential customers using an essential service.
 - Whereas under the conventional model non-residential customers would recover their water costs from the sale of a marketable commodity or product that is not associated with the provision of an essential service to small residential customers.

We consider that a new wholesale customer category needs to be created for managing WICA licence holders to ensure the water market is equitable for all. This should not only be applicable to CHBWU and CCC, but for all WICA schemes being provided bulk water services from an existing government water utility.

Should we set maximum prices for the services the Council supplies to WICA licensees now, as part of this review?

We are of the view that IPART should be involved in setting maximum prices for all bulk water services that Councils and incumbent water authorities provide to all WICA schemes industry wide, not just in CCC region.

This should be done on a case by case basis using a standard methodology based on information specific to each scheme, because all water systems are different and all have different cost and resourcing requirements.

If so, why should we set these prices?

We feel IPART should be involved in setting wholesale water prices for WICA schemes for the following reasons:

- To ensure transparency for WICA licence holder's and their customers.
- To ensure transparency for the respective bulk water utility and their customers.
- To ensure the water market can be operated in a competitive manner that does not disadvantage or restrict new players from entering the market due to high wholesale water pricing set by incumbent water authorities.
- To ensure consumer confidence in the private water market.
- To ensure equity for small residential customers across the water industry.

- To provide market certainty around input costs for more WICA schemes to be developed.
- To ensure there is not an actual or perceived conflict of interest in the scenario where an incumbent water authority can set the wholesale water pricing for their WICA competitors.

An acceptable method should be developed across the state, not just for CCC, or for each incumbent water utility when the IPART routine pricing reviews are undertaken.

And, what is the appropriate price (or prices)?

As a way of comparison, the current retail water rate that CCC charge all of their customers including CHBWU is \$2.29/kL.

The current bulk water supply rate between CCC and Hunter Water is \$0.63/kL. This relatively low bulk water supply rate is based on a mutually beneficial arrangement for security of supply provisions between the two water utilities.

We acknowledge that our scenario is unique and the CHBWU scheme does not provide security of supply to Central Coast Council or Hunter Water, hence CHBWU should not be charged the same low bulk water rate.

In fairness to all parties the bulk water rate that CCC charges CHBWU should most likely be somewhere in between \$0.63 and \$2.29/kL, the specific price would depend on CCC's costs to deliver the bulk water service to the connection point. As a WICA licence holder we are not in a position to propose a specific bulk water price for this service as we do not have access to CCC's detailed cost data.

In determining the appropriate bulk water supply price between \$0.63/kL and \$2.29/kL, the following guiding principals should apply:

- The bulk supplier (in this case CCC) must not be disadvantaged as a result of supplying bulk water to WICA schemes.
- The bulk supplier (in this case CCC) must be entitled to a "bulk supplier margin" on services provided to WICA licence holders, based on the actual cost to deliver the bulk service to the connection point,
- WICA licence holders must be entitled to a "local water utility margin" on services provided to their customers using their own infrastructure.
- Small residential customers inside WICA schemes must not be disadvantaged compared to small residential customers in other nearby areas.
- WICA licence holders need recognition for the role they play in delivering essential services to the community, the same way government water utilities do.
- WICA licence holders often provide services to land or existing development that is difficult to service that would otherwise remain unserved for many years. The external benefits of this to the broader community and the environment should also be recognised.

In terms of methodologies, we do not support the generic retail minus approach for price determination, particularly given that CCC charge developer contributions under the Water Management Act. Adopting the retail minus approach would also create additional administrative burden upfront for both parties to be able to determine the price. In the specific scenario of the CHBWU scheme, the retail minus approach is likely to be flawed methodology because the

CHBWU scheme is located inside Hunter Water's area of operations but it receives bulk water from within CCC area of operations. We would prefer pricing to be based on the specific cost to provide the bulk water service to the specific connection point.

The above information was provided as input into IPART's review of CCC pricing. The information we have provided is not designed to be a negative reflection on CCC. We value our relationship with CCC as the bulk water supplier for the CHBWU scheme.

Our comments are more directed at the need for high level system changes in the water industry to take into account WICA licence holders, which are a relatively new entrant to the water industry in NSW since the WIC Act was written in 2006.

Thank you for this opportunity to contribute to the IPART's review of CCC water pricing. We would be happy to provide additional information required by IPART or CCC.

If you require any further information in relation to this matter please contact the undersigned.

Yours faithfully,

A black rectangular box redacting the signature of Brad Irwin.

Brad Irwin
Environmental Engineer