



29 October 2020

Dear Sir/Madam,

Veolia welcomes the opportunity to comment on the proposed “Water Pricing and Licensing, regulating Water Businesses, Special Review,”.

Veolia Water is a Water Operations business servicing both municipal and industrial customers across Australia. Our NSW operations include the Fairfield Water Recycling plant, Sydney Desalination Plant, Illawara and Woronora Water Treatment Plants and Gerringong Wastewater Treatment Plant. Veolia’s major customers include Sydney Water, Hunter Water and the Sydney Desalination Plant Pty Ltd.

We offer the following comments in relation to the Review.

Question 3: How can we better coordinate with other stakeholders (including the Government’s strategic water plans and the requirements of other regulators) to help lift the performance of the water sector?

Veolia agrees that stakeholder engagement is an important component to help enhance the performance of the water sector.

IPART could consider initiating discussions with all major players, including water operators involved in managing water infrastructure that IPART regulates. Water Operators’ pricing is reflected through the contracts and the operational risk that is required by the specific operations contract. It is important that IPART understands these contractual limitations and risks when setting prices and performance levels.

Another potential avenue would be to engage with the major water associations (being the Water Services Association of Australia and Australian Water Association) who have members that span the breadth of the water sector. Topics such as innovation and best practice can be discussed to help lift the performance of the sector collectively.



Question 4: Should we use a broader range of incentives to encourage innovation? If so, what would these be? For example, can we inspire ‘competition by comparison’?

Veolia supports the implementation of a broader range of incentives to encourage innovation which ultimately benefits the end consumer.

IPART could consider alternative commercial models that better encourage innovation, such as gain share models where all parties benefit.

In addition, Veolia supports contracts that promote and reward the implementation of innovation to improve cost reduction, operational performance and/or risk reduction, which is underpinned by reasonable contract terms to allow the innovation to be realised.

Question 6: What changes should we make to our review of the business’s actual and proposed expenditure? For example, what information should we require from businesses and where could we credibly incorporate more benchmarking into our expenditure review process?

Benchmarking can serve to provide guidelines on key performance parameters of different operations. For that reason, Veolia annually benchmarks our treatment plants globally to ensure performance levels are optimal for our clients.

However, benchmarking must be applied carefully. Factors such as temperature and locality to coastal environments have a significant impact on operational costs and thus need to be considered as essential parameters in the pricing structure. Additionally, variable costs need to be reviewed to be reflective of true costs as well as the risk profile adopted in the contract (such as raw water quality envelope guarantees).

Operational and contractual risks need to be addressed in any pricing structure, which also varies on a case by case basis.

Additionally, Veolia believes that recycled water needs to be reviewed in terms of its future direction and pricing, particularly in relation to its value and role in creating water resilience for NSW. The chargeable rate has directly impacted the ability of the industry to invest in recycled water infrastructure due to the financial hurdles, in competing with surface and desalinated water.

There is currently limited flexibility to allow for alternative and suitable operating modes to meet environmental changes. Significant (or even disruptive) events are expected to occur more frequently in the future and an adequate and proportionate response would ensure



minimised risks for the consumer, as opposed to possibly deferring certain elements of the response due to uncertainties with regards to expected costs.

Such significant events (such as global pandemic, tornadoes, climate change, bushfires, drought) should trigger a review of the economic determination. This review could allow a timely assessment of the event, its risks, costs and increase response flexibility in order to protect customers and water supply.

Veolia would be interested in participating in future discussions in relation to this topic. Should you have any questions, please do not hesitate to contact Richard Mueller, Technical and Performance Director [REDACTED], or myself.

Regards



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Veolia Australia and New Zealand