

46 Do you have any comments about Sydney Water's Developer Direct application and construction services in terms of price and service?

Based on our experience as a competitive supplier of services, SWDD's fixed fee for applications of \$713.10 is:

- Unfairly undercutting rates available by commercially competitive firms
- Somewhat anti-competitive, as it is not realistic for commercial operators to offer fixed fees for each project.

Private contractors provide better levels of service. At application stage Warren Smith and Partners provide proper Computer Aided Drafting (CAD) drawings, while SWDD provides simple marked up plots from the HYDA database. In our experience, proper CAD drawings avoid considerable problems on site compared to marked up HYRA plots and is therefore much more efficient overall.

However, SWDD recoup the cost of lower quality of service at application phase in the construction service stage of the project (which does not have a regulated price).

Therefore SWDD has a competitive advantage of being able to attract clients with a low application price and making more on the un-regulated construction stage of the project

Most of the non-direct costs of running the SWDD business are hidden and not accounted for. Aspects such as HR costs from staff turnover, business risk, financial cost, business development costs, are not specifically included in an accounting management system. These costs are usually deemed to be included in hourly rates, which are usually grossly under-estimated as a result.

The only way for SWDD business to compete on a same footing as commercial operators would be for the business to have an autonomous separate business unit which employs its own staff and carries all the costs that a commercial operator would, including a guaranteed contribution to Sydney Water to cover management, financing, and HR / billing services.

Doing it this way would raise the question of what the benefit to Sydney Water would be of doing this. The revenue or profit is insignificant in Sydney Water's context. Sydney Water has made a significant investment in setting up the WSC process and would obtain better results for customers by improving the level of service provided by WSC through quality control and quality assurance, than competing, on an unlevel playing field with service suppliers.

Sydney Water may be wishing to obtain a better understanding of the customer expectations having a direct connection to the customer, but this can be achieved in better ways, either by building better communications and information sharing with the WSC's.

47 Should the construction services provided by Sydney Water Developer Direct be price regulated, or is price monitoring by IPART more appropriate?

Regulating SWDD prices for construction services will further distort the market for WSC services. However, the existing system to price monitoring is enabling SWDD to offset losses and inefficiencies in the application phase. Other mechanisms of improving the WSC process will be more transparent and more effective than price monitoring and price regulation are not effective.

48 If we were to regulate the price of construction services provided by Sydney Water Developer Direct, how should these prices be determined?

The additional cost of regulating the SWDD will increase the overhead of the business and add unnecessary regulation cost to IPART. The regulation costs would outweigh value proposition of the business and would create an unprofitable business if IPART's additional cost were to be included as an overhead cost to the business.