



27 May 2016

Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Sir,

Review of Wholesale Prices for Sydney Water and Hunter Water

Reference is made to your April 2016 Discussion Paper concerning the pricing for wholesale water supply and sewerage services. Council's comments are provided below.

Please note that for clarity, reference is made in the comments to the incumbent (as the service supplier) and the new entrant (as the service receiver).

This review is of particular interest to Council given that Catherine Hill Bay Water Utility Pty Ltd (CHBWU) has recently been granted a network operating licence under the WICA legislation in part to source bulk treated water supplies from Council.

Water pricing for CHBWU is based on a regulated non residential approach as there are no other pricing models available under the current framework.

Given limited involvement with the WICA process to date Council has largely viewed the Discussion Paper in the context of the above arrangements.

Attention is firstly drawn to Executive Summary Sections 1.1 and 1.5 where the negotiation of a mutually agreed price has been suggested as an alternative to IPART determining prices as the "independent umpire".

Council has used this approach successfully in the past albeit on a relatively small scale for the supply of recycled water to golf courses in the pre amalgamated Wyong Shire.

While Council believes that a proposal for consensual pricing may be appropriate for entities such as corporations, the ability to negotiate pricing could be much more problematic in a local government environment where external influences may serve to distort or influence the pricing process.



In Council's view, in the case of new entrants accessing services from a local government utility, it is appropriate that IPART adjudicates a suitable pricing regime and structure.

Council notes the criteria listed in Executive Summary Section 1.2 as it relates to efficient market entry, the generation of a level playing field and the desirability of competition.

While Council does not believe this criteria is unreasonable, the application of the criteria should not result in any material disadvantage to the incumbent utility or the incumbent's existing customers.

In relation to the Executive Summary Section 1.3 Council generally concurs with the retail minus (plus net facilitation cost) philosophy as it seems to offer the best opportunity for the achievement of similar pricing across adjacent service areas and providers if this is the prime objective.

While the achievement of pricing parity is taken as a "given" in the Discussion Paper, it does nevertheless raise concerns of potential inequity where for example an existing major water user in the incumbent's service area could pay more for water on a per kilolitre basis than the new entrant.

Based on the retail minus philosophy outlined in the Discussion Paper this could be an emerging risk in the Catherine Hill Bay situation although communications to date with CHBWU have been based on CHBWU paying the water usage postage stamp rate applying elsewhere in Council's service area.

In reference to "competition" the concept of Council and CHBWU actually competing in the provision of water supply appears to be irrelevant as these are two separate entities serving completely different areas. In this instance it would appear that prices do not necessarily have to be aligned.

In relation to Section 4.3.2 a typical four year determination period aligned to retail price reviews does not seem unreasonable.

While admittedly outside the scope of this review Council has some concerns that the use of "level playing field" pricing principles for wholesale pricing under this review may not necessarily result in the subsequent transfer of the associated benefits to the actual customers of the new entrant.

In this regard attention is drawn to Section 52 of the Water Industry Competition Act 2006 which refers to a price determination process for monopoly services.

The provisions of Section 52 would seem to indicate that there is a degree of discretion on the part of the Minister as to whether or not IPART will undertake a retail price setting role for the individual customer base. This approach is different to that applying to water supply agencies such as the Central Coast Council where IPART always undertakes a price setting role for the customer base by setting charges, for example, for residential customers.

In the event that IPART is not involved in retail pricing this appears to open an avenue for the customer to be exposed to potentially paying (via prices) more than the efficient cost of providing the service. Such an occurrence would also compromise the objectives of the retail minus philosophy supported by IPART in the Discussion Paper.

In view of the above it would seem that entities such as WICA utilities are being protected from excessive wholesale charges by incumbent utilities whereas the individual customers of the WICA utility (arguably a monopoly service) might not enjoy the same level of protection.

From a level playing field perspective it is important that IPART is seen to be taking an active price setting role for the benefit of all customers not just for those customers of public or government owned water supply authorities and agencies.

If you require additional information / clarification or have any questions please do not hesitate to contact the undersigned on [REDACTED]

Yours faithfully,

A black rectangular redaction box covering the signature of Ian Johnson.

Ian Johnson
Section Manager, Regulation

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