

12 October 2015

Dr Peter Boxall
Chairman
Independent Pricing and Regulatory Tribunal
Level 15, 2-24 Rawson Place
Sydney NSW 2000

Re: Infrastructure Partnerships Australia's submission to the Independent Pricing and Regulatory Tribunal (IPART)

Dear Dr Boxall,

Infrastructure Partnerships Australia (IPA) welcomes the opportunity to make a submission on IPART's issues paper regarding the Review of Prices for Sydney Water Corporation from 1 July 2016.

This submission isolates the key issue of pricing for utilities licensed under the *Water Industry Competition Act 2006* (WIC Act) and the potential for nascent competition in the water industry to be limited as a result of the proposed changes. Recognising that competition is not a goal in itself, but rather a tool to achieve economic efficiencies, we submit that these pricing changes should be considered alongside the overall objectives for the water industry.

Moreover, IPA would like to emphasise that NSW is very much a leader within Australia in the implementation of competition in the water industry. What occurs in NSW will establish precedents and examples for other states and as such, it must be noted that decisions relating to competition will have broader national impacts.

We take the position that a broader review of competition and the overall market structure would deliver the best long-term outcome for consumers and taxpayers. Due to concerns about impacts on competition, IPA does not support the proposal to change to 'retail minus avoidable costs' pricing for utilities licensed under the WIC Act in the absence of a holistic market review. The needs of the water industry are changing, as is its composition, resulting in a need for a wider review of policy in order to enhance future opportunities for innovation and competition.

The proposed pricing change

The IPART issues paper discusses utilities licensed under the WIC Act, with IPART showing a preference for the creation of a 'wholesale customer' class whereby prices are based on a 'retail minus avoidable costs' approach.

Although, the exact pricing arrangements currently in place are commercial-in-confidence, IPA understands that the proposed shift to a 'retail minus' pricing approach will represent a marked change to current practice.

Impact on the water industry

Discussions with numerous industry stakeholders suggest that if the proposed pricing changes come into effect, the result will severely impact the costs and therefore financial viability of WIC Act utilities.

We recognise that the proposed change to 'retail minus avoidable costs' approach has been proposed in the context of 'postage stamp pricing' and Sydney Water's understandable concerns for loss of revenue generating customers.

Sydney Water's largely fixed cost base, means that costs are recovered across the entire customer base where 'postage stamp pricing' creates cross subsidies where lower cost areas cover some of the burden of servicing high cost areas.

Although the customer base currently serviced by WIC Act licensees is in the order of just 0.5 per cent, there are legitimate concerns that as the WIC Act industry grows, Sydney Water's ability to fund services in areas with higher costs will be diminished.

As a matter of principle IPA supports the need to address this issue long term, however, in finding a solution IPART should be mindful of the potentially adverse impacts on competition.

Competition in the context of postage stamp pricing

IPA submits that IPART needs to consider the issue of utilities licensed under the WIC Act with respect to the broader objectives of economic regulation and within the overall market framework. In particular, IPA submits that the adoption of 'retail minus avoidable costs' would represent an extra complication to a market structure that is in need of a more comprehensive review. The broader issues for the NSW water industry revolve around finding clarity as to the objectives of competition and how to reconcile these objectives against the current mandate of 'postage stamp pricing'.

The impact of developer charges

Evidence of the need of broader consideration of regulation and competition can be seen in the example of developer charges. Currently, developer charges are set to zero for water and wastewater. This means that investment in basic water and wastewater infrastructure is recovered across the entire customer base. Moreover, the absence of developer charges removes price signals for investment and alters the business case incentives around private sector procurement and the locations where development may occur. IPA recommends that the issue of developer charges be reviewed to better enable a level playing field for competition and to reinstate much needed price signals.

The future of the WIC Act industry

To date the WIC Act has fostered a small but important degree of water market competition. However, as it grows, IPART must recognise that there is a need for greater harmonisation between the incumbent market structures and new entrants. The WIC Act water market is only just taking off and it is important to ensure that pricing and regulation do not prevent competition from developing further and providing the community with benefits over time. Equally, it is important that in further developing competition we recognise the longer-term pressures on Sydney Water's revenue base. To clarify, IPA is not asking that WIC Act licensees be encouraged to the detriment of the wider system, only that they should be given an even footing on which to compete with conventional water and wastewater services.

Conclusion


IPA recognises the complexity of IPART's role in balancing the broader objectives for the water industry against the goal of promoting competition. With this in mind, IPA's recommendation, as an industry body representing both the public and private sectors, is that rather than considering the pricing of WIC Act licensees in isolation, IPART should perform a more comprehensive review of competition and market settings with the aim of enabling both Sydney Water and WIC Act utilities to realise the greatest opportunities for economic efficiency into the future. This review should consider:

- 'Postage stamp pricing';
- The re-introduction of developer charges for conventional water infrastructure; and
- How competition can be better used to improve economic efficiency.

We hope that our submission has been of useful and we would be happy to provide further information to you, as you continue your inquiries. Please note that IPA and the Water Services Association of Australia (WSAA) are currently working on a collaborative paper on policy reform in the urban water sector and we intend to share this paper with IPART upon its completion in November.

In the meantime, should you require any further information please contact IPA's Policy Manager Robert Montgomery [REDACTED].

Yours sincerely,

A large black rectangular redaction box covering the signature area.

Brendan Lyon
Chief Executive Officer