

6<sup>th</sup> October 2015

Sydney Water Corporation Price Review 2016  
 Independent Pricing and Regulatory Tribunal

Submitted via online portal at : [http://www.ipart.nsw.gov.au/Home/For\\_Consumers/Having\\_your\\_say/Lodge\\_a\\_submission](http://www.ipart.nsw.gov.au/Home/For_Consumers/Having_your_say/Lodge_a_submission)

Dear IPART,

Thank you for the opportunity to comment on the "Review of prices for Sydney Water Corporation from 1 July 2016 : Water – Issues Paper September 2015".

Item	Issue / Comment
-	<p><b>Liveability</b></p> <p>We acknowledge Sydney Water's recent efforts and front line focus on liveability as an important strategic objective for the organisation. This was highlighted in the covering letter from the Chairman and Managing Director (see "The Year in review") in Sydney Water's 2014 Annual Report. We were therefore surprised and disappointed to see that liveability received only a single mention in the Executive Summary of Sydney Water's pricing proposal. Permeate Partners believes there needs to be clear link between liveability, costs, prices, value and outcomes. Simply re-branding "BAU services" as "liveability" seems to be a missed opportunity. Permeate Partners encourages IPART and Sydney Water to develop mechanisms that allow true liveability initiatives to be costed, fully valued (including all qualitative and long term benefits) and included in future pricing determinations.</p>
1	<p><b>What should be the length of this determination period?</b></p> <p>Permeate Partners believes that a 4 year determination period is appropriate, however, would like see greater discussion on how costs for longer term objectives are assigned. Continuous investment in water sustainability, even during times of high rainfall, is critical to avoid inflexible / expensive / bulk solutions such as desalination.</p>
28 to 32	<p><b>Weighted average price cap</b></p> <p>Permeate Partners believes that the proposed weighted average price cap would introduce a significant administrative burden for little benefit to the broader customer base. Furthermore allowing customers to choose between a customised / situation specific tariff or list price would undermine postage stamp pricing.</p>
41	<p><b>Is Sydney Water's proposed water usage charge of \$1.97/kL reasonable? Is so, why?</b></p> <p>It appears that the bulk of the proposed reduction (~14%) in potable water charges results from a decrease in Sydney Water's WACC. The consequences of directly linking short term finance costs with the potable water volumetric charge may result in confusing market signals, especially following recent efforts to educate customers on the value of water. Permeate Partners encourages Sydney Water to explore opportunities to invest savings in finance costs into long term initiatives to improve liveability, resilience and water security. This approach preserves the current water price and provides medium / long term benefits for the wider customer base.</p>
43	<p><b>Should Sydney Water's water usage charges vary to make drought response costs more transparent to end-use customers (ie reflecting the per kilolitre cost of desalinated water if the Sydney Desalination Plant is activated)?</b></p> <p>Permeate Partners supports efforts to make drought response costs more transparent to end-use customers. Permeate Partners believes that replacement of traditional sources of potable water (ie dams) with desalinated water or recycled water should be given equal treatment. Currently the costs of desalination are spread evenly across the entire Sydney Water customer base, whereas, the costs / revenue for recycled water must be ring fenced to the project during the assessment phase.</p> <p>Using ring fence logic, customers who receive a % of desalinated water would pay a premium when the desalination plant is operating whilst the balance of the customer base remained on a lower charge. Obviously this would be politically unacceptable and undermine postage stamp pricing. Permeate Partners encourages IPART and Sydney Water to develop mechanisms that allow all sources of alternate water to be given equal treatment when considering pricing / water security.</p>

Item	Issue / Comment
46	<p><b>Should residential customers pay a wastewater usage charge?</b></p> <p>Permeate Partners believes it is impractical to apply a wastewater usage charge to residential customers given the difficulties in determining an accurate discharge figure on a per property basis. Discharge factors used on non-residential customers can be interrogated through metering / site audits, whereas it would be near impossible to differentiate between a high external water use customer and a high discharge to sewer customer on a residential scale.</p>
59 to 61	<p><b>Wholesale prices</b></p> <p>Permeate Partners believes there are four broad areas where wholesale prices should be considered, namely:</p> <ul style="list-style-type: none"> <li>a) <i>Potable water service</i> Permeate Partners supports a “retail minus” approach when developing wholesale prices for potable water. Noting that the “minus” component should include any BAU services (priced at BAU rates) normally undertaken by Sydney Water including retail, network maintenance, etc which are undertaken by the Proponent.</li> <li>b) <i>Sewerage service where Sydney Water’s sewerage network is used for transport of sewage to a Proponent treatment plant.</i> Permeate Partners notes that a retail minus approach in this scenario can result in distorted pricing where the wholesale price / access charge is the same for 1m of network access as it would be for 10,000m of network access.</li> <li>c) <i>Sewerage service where Proponent’s sewerage network is used for transport of sewage to a Proponent treatment plant. Proponents may seek to discharge waste streams to Sydney Water’s network.</i> Permeate Partners does not support a retail minus approach where the Proponent owns and / or manages the sewerage network between its customers and treatment plant. In this configuration the Proponent may wish to establish a connection with Sydney Water for discharge of waste streams. Permeate Partners believes that the current fees and charges for non-residential customers adequately covers the relationship between the Proponent and Sydney Water in this situation.</li> <li>d) <i>Sydney Water’s cost of servicing exceeds the retail price</i> A retail minus approach is not appropriate where Sydney Water’s cost of servicing a customer exceeds the retail price. Permeate Partners encourages IPART and Sydney Water to develop mechanisms that allow competition in high cost areas (new and existing) of the network. In these areas Proponents should be able secure appropriate compensation from Sydney Water if the outcome results in a saving to Sydney Water’s customer base.</li> </ul> <p>Permeate Partners recommends further industry consultation is undertaken to confirm pricing arrangements for each of the above areas.</p>
62 to 63	<p><b>Recycled water price</b></p> <p>Permeate Partners encourages IPART and Sydney Water to develop pricing for recycled water which moves away from simply being a 10% discount on the volumetric charge for potable water. Permeate Partners recommends a move towards price parity for potable water and recycled water. This eliminates any subsidisation of potable water top-up on recycled water schemes and reflects the water security benefits provided by recycled water, especially during periods of water restrictions.</p>

**ENDS**

Yours Sincerely,

Kurt Dahl  
Managing Director