

21 October 2015

Mr Rob O'Neill
General Manager, Licensing and Compliance
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Re: Applications under the Water Industry Competition Act 2006 (WICA) for a network operator licence and variation of retail supplier licence for Box Hill North.

Dear Mr O'Neill,

Thank you for the opportunity to comment on the application by Flow Systems Operations Pty Ltd (**FSO**) for network operator licences for both non-potable and sewerage infrastructure under WICA. We have also included comments on the application by Flow Systems Pty Ltd (**FS**) to vary their retail supplier licence to include the Box Hill North development (the **Development**), as the issues raised overlap both applications. Please find below some information we hope will aid the efficient delivery of services to customers in the Box Hill North development.

Development servicing (sections 3.2.5 and 3.4.2)

Although FSO makes reference to the developer engaging FSO to provide sewerage and recycled water infrastructure within the Development, we would like to note that the developer is still progressing with detailed planning of water and sewerage infrastructure with Sydney Water as the service provider for the Development.

Monopoly Supply (section 3.6)

Both applications state that recycled water and sewerage services are not monopoly services as "[a]ll customer classes have the ability to choose who will provide their sewerage service." Sydney Water disputes this statement.

WICA promotes competition **for** the market rather than **in** the market to ensure that the provision of services is technically efficient. The result of this is that an individual customer in a particular location is not able to choose between two or more service providers for the same service.

For the Development, individual customers will not be able to choose to receive sewerage or recycled water services from Sydney Water if FSO and FS are chosen by the developer as

the final service provider. Sydney Water will not own or operate any sewerage or recycled water infrastructure in the Development (if it is serviced by FSO and FS). Customers within the Development would not physically be able to connect to Sydney Water infrastructure. The nearest Sydney Water sewer main will be over 1 km away from the nearest property and would require a new sewage pumping station to transfer the sewage to that location. It would be uneconomical for Sydney Water to service an individual customer if they did not want to be serviced by FS. The result is that FS is essentially operating as a small, discrete monopoly in this area. We believe that under any standard market definition and competition assessment, FS would be deemed a monopoly supplier of services within the localised market it is supplying.

From this, Sydney Water believes that the sewerage and recycled water service provided to customers within the Development will be a monopoly service. And in the absence of price regulation there would be the ability for FS to exercise market power.

Competition (section 3.7)

FS and FSO suggest that this licence will promote competition within the scheme area.

WICA was created to drive efficient entry into the market and the outcome of any competitive market should see prices reduce or an improvement in value for customers. We note that FS have a "price parity with Sydney Water" policy. Their website suggests they are more efficient than Sydney Water and can provide services for less; however, their customers do not see the benefit of this through lower prices than Sydney Water.

Potential for adverse financial implications for customers (section 3.7.1)

FS and FSO suggest there is no potential for adverse financial implications for customers due to their "price parity" policy. They also state that only "one off" charges differ from Sydney Water's. However, the "pricing parity" policy seems to apply to service and usage charges for water and sewerage services only¹. Recycled water charges differ as Sydney Water does not currently apply a service charge for recycled water services. In addition, FS ancillary charges are all higher or potentially higher than Sydney Water charges because they are hourly charges and are not capped. The attached example (**attachment 1**), shows how a customer receiving services from FS will pay slightly more than if they received services from Sydney Water based on the assumptions provided by FSO and FS.

Potable water top-up connection (sections 4.2.4)

Contrary to the application, Sydney Water cannot provide FSO with a potable water connection as we understand that they will not own any property within the development. Under Sydney Water's Operating Licence we are only required to service customers that are subject to our customer contract where they are the owner of a property. Additionally, we note that FSO have not requested access to our infrastructure and are not applying to operate potable water infrastructure under WICA.

¹ Flow Systems Pty Ltd residential prices for Box Hill
http://flowsystems.com.au/governance/Box_Hill/Box_Hill_Residential_Service_Usage_Pricing.pdf

Sydney Water can provide a water connection to the property owner of the lot where the recycled water plant will be located. This connection will be the responsibility of the property owner. Sydney Water cannot guarantee supply to the recycled water plant; this would need to be managed under an agreement between the property owner and FSO.

The recycled water network should not be charged directly from Sydney Water mains during Phase 1 unless appropriate backflow prevention by means of an airgap is in place to protect Sydney Water's water supply.

Commercial Agreement (4.2.12)

FSO state that they will be entering into a commercial agreement with Sydney Water. Sydney Water will not be entering into a commercial agreement with FSO as there is no interconnecting infrastructure as outlined in their application. Sydney Water has yet to be approached by FSO regarding this development.

Potable water top-up availability (4.2.6)

The application states that FSO will be requesting a 35L/s connection. This size connection will supply up to 3ML/day as a potable water top up to supply their recycled water treatment plant. This equates to the full recycled water maximum daily demand for the entire development at completion. This means there is no reduction in Sydney Water's infrastructure capacity due to the provision of recycled water by FSO.

FSO have suggested that their first option for recycled water top-up is stormwater. Given that the nature of stormwater is highly variable in both quality and availability, the security of the scheme will be largely dependent on top-up from Sydney Water's drinking water system.

Waste streams (sections 4.2.9, 4.2.13, 4.2.15, 4.3.4, 4.3.6, 4.3.7)

The application states that the systems and processes for the Development are similar to previous developments and cite Central Park, Pitt Town and Discovery Point as examples. However, these three examples all have discharge capability to another established water utility's sewerage network (Hawkesbury City Council or Sydney Water) as a reserve option. This application has no such back stop. FSO have suggested that in the event they exhaust all other options and require another disposal method they will seek connection to Sydney Water infrastructure or obtain an Environment Protection Licence (EPL) to allow them to discharge treated sewage to a local waterway.

The nearest Sydney Water sewer main is over 1km away from the nearest property in the Development. This option would not be able to be implemented in a short timeframe and may take 6-18 months to complete (from modelling to connection). It will also be disruptive for the Development as FSO is not planning on completing this work in line with the general construction of the Development.

Sydney Water encourages IPART to consult with the EPA on the proposed alternative to obtain an approval to discharge (EPL) into the Hawkesbury-Nepean catchment. It is

appropriate for the EPA to comment on the associated requirements and likely conditions of such a request. Based on our experience, this option would also have a large lead time.

Sydney Water believes the estimated amount of sewage generated per person is conservative and the recycled water demand figure to be ambitious. Our experience suggests that this could lead to the need to have other backup options available before the completion of the development. For reference, for our own planning purposes, Sydney Water uses 150L per person per day for estimating sewage generated and assumes recycled water demand of 1/3 of sewage flow.

Sydney Water notes that in Phase 1 the interim solution for sewerage disposal is to tanker the sewage off-site to a registered waste management facility. From experience this option is expensive and it is also difficult to manage and obtain approval for the extensive tanker movements that are required to dispose of the sewage. We note that tankering the sewage (untreated) off site may result in Sydney Water ultimately receiving the sewage (via another party) and needing to use our system to transport, treat and dispose of it. This means that, similar to water, there may be little or no capacity reduction in Sydney Water's infrastructure capacity due to the provision of services by another utility.

Operator of Last Resort (OoLR)

Our final comment relates to the proposed introduction of OoLR provisions to WICA. In the case of a Last Resort event, there could be significant risk incurred by the OoLR if the infrastructure has not been built and/or maintained to adequate standards. Sydney Water supports and recommends that the minimum requirement for all infrastructure, including water recycling plants, should be based on WSAA standards and codes to minimise potential future Last Resort risks and costs.

Sydney Water's position is that it would be prudent for all scheme operators to demonstrate a suitable level of financial security before scheme approval in order to reduce the likelihood and impact of a Last Resort event.

If you would like to discuss any of these matters further, please contact Heidi Muras, A/Competition and Licensing Manager on [REDACTED] or by email at [REDACTED]

[REDACTED]

Yours sincerely

Heidi Muras
A/Manager, Competition and Licensing
Sydney Water

Attachment 1

Example customer bill if serviced by Sydney Water

In 2016-17, assuming water use of 220kL per year which represents an average water using property in Sydney Water's area of operations, charges would be:

Charge	Amount	Total (yearly)	Paid to
Water Use	\$2.019/kL (x 220kL)	\$444.18	Sydney Water
Water Service	\$100.98/year	\$100.98	Sydney Water
Wastewater Service	\$596.90/year	\$596.90	Sydney Water
Total paid by customer		\$1,142.06	

Example customer bill if serviced by Flow Systems

For comparison, assuming as suggested by FS, 50% of water used at an average water using property is replaced by recycled water, charges would be:

Charge	Amount	Total (yearly)	Paid to
Water Use	\$2.019/kL (x 110kL)	\$222.09	Sydney Water
Water Service	\$100.98/year	\$100.98	Sydney Water
Wastewater Service	\$596.90/year	\$596.90*	Flow Systems
Recycled Water Use	\$1.8171/kL (x 110kL)	\$199.88*	Flow Systems
Recycled Water Service	\$32.40/year	\$32.40**	Flow Systems
Total paid by customer		\$1,152.25	

*Assuming continuation of FS's "price parity" policy with Sydney Water.

**This charge is still in 2015/16 dollars as we do not know FS's prices for the following year. Sydney Water does not charge a recycled water service charge so this charge is not at parity with Sydney Water.

The above examples are based on prices in the Sydney Water pricing proposal for 2016-2020 in \$real (2016-17).

Financial impact for customers

Based on the assumptions stated by FS in its applications, Sydney Water estimates that customers could pay around \$10.19 per year more by receiving sewerage and recycled water services from FS. This could increase further depending on customer choice regarding bill options, whether customers use less recycled water and any required ancillary services.

