

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF PRICES FOR SYDNEY WATER CORPORATION

Tribunal Members

Dr Peter Boxall AO, Chairman  
Ms Catherine Jones and Mr Ed Willett, Members

Members of the Secretariat

Mr Hugo Harmstorf, CEO, Mr Matt Edgerton,  
Ms Anita Payne, Mr Ben Strate and Mr Justin Robinson

Wesley Conference Centre,  
220 Pitt Street, Sydney NSW

Monday, 28 November 2016, at 10.00am

1 OPENING REMARKS

2  
3 THE CHAIRMAN: Good morning, everyone. I would like to  
4 welcome you to this public hearing on IPART's review of the  
5 maximum prices that Sydney Water and Hunter Water can  
6 charge for their wholesale water and sewerage services.  
7 I would like to begin by acknowledging that this hearing is  
8 being held on the traditional lands of the Gadigal people  
9 of the Eora Nation.

10  
11 My name is Peter Boxall and I am Chair of IPART.  
12 I am joined today by my fellow tribunal members,  
13 Catherine Jones and Ed Willett. Assisting the tribunal  
14 today are members of the IPART secretariat, our CEO,  
15 Hugo Harmstorf, with Matt Edgerton, Anita Payne, Ben Strate  
16 and Justin Robinson.

17  
18 The purpose of this review is to consider the pricing  
19 arrangements for the supply of wholesale water and sewerage  
20 services by Sydney Water and Hunter Water. These services  
21 are purchased by wholesale customers to provide services to  
22 end-use or retail customers. Wholesale customers are  
23 typically new smaller water utilities licensed under the  
24 Water Industry Competition Act 2006 - WICA - to service a  
25 specific development area. The emergence of these smaller  
26 water utilities has created competition for end-use  
27 customers.

28  
29 This is the first time that IPART has considered  
30 wholesale services in price reviews for Sydney Water and  
31 Hunter Water. To date, we have set maximum prices for  
32 services that are provided to end-use customers, which we  
33 refer to as retail services. We concluded reviews of these  
34 retail prices for Sydney Water and Hunter Water in June  
35 this year. This review, however, is considering a range of  
36 issues including what are wholesale services; the  
37 appropriate prices and pricing methodologies to apply to  
38 wholesale services; and the best way to implement IPART's  
39 pricing decisions.

40  
41 The purpose of today's hearing is to outline our key  
42 draft decisions from our draft report and draft  
43 determinations, which were released on 1 November, and to  
44 seek your views.

45  
46 Our draft decisions aim to encourage efficient entry  
47 and competition in the provision of water and sewerage

1 services given, the early stage of market development. By  
2 implementing our pricing decisions through the setting of  
3 system-wide prices and still providing for scheme-specific  
4 determinations, we are seeking to develop a regulatory  
5 framework that balances the need to provide certainty to  
6 market participants with the flexibility for wholesale  
7 customers and service providers to have prices that reflect  
8 the specific characteristics of their wholesale servicing  
9 arrangements. We are also seeking to ensure that  
10 administration and regulatory costs are kept to a minimum.  
11

12 This review is considering the price of wholesale  
13 services provided by Sydney Water and Hunter Water only.  
14 There are a range of issues that impact on the market and  
15 the development of competition and we note that  
16 stakeholders, in submissions, raised issues such as  
17 operating licence conditions and the price regulation of  
18 wholesale customers. Further, some stakeholders have  
19 suggested that a broader review of the New South Wales  
20 water industry is needed to facilitate the development of  
21 competition. As we noted in our draft report, we do not  
22 consider this price review of wholesale services and a  
23 broader review to be mutually exclusive.  
24

25 I would like to thank those who have participated in  
26 this review to date, in particular those who have provided  
27 written submissions in response to our discussion paper,  
28 which was released in April this year, and in response to  
29 our issues papers for our Sydney Water and Hunter Water  
30 retail price reviews, which were released in September  
31 2015.  
32

33 This public hearing is an important part of our  
34 consultation process. In addition to the views expressed  
35 in written submissions, we will consider the views you  
36 provide today in making our final decisions.  
37

38 We are seeking comments on all of our draft decisions.  
39 The due date for written submissions is 7 December and we  
40 are due to release our final report and determinations  
41 in February 2017.  
42

43 Before commencing the proceedings today, I would  
44 like to say a few words about the process for this hearing.  
45 We have three main sessions in today's public hearing. The  
46 first two sessions cover the two key areas where we have  
47 made draft decisions - that is, pricing approaches and

1 implementation.

2  
3 Before we get into the detail, we will present a brief  
4 overview of the review to provide some context for the more  
5 detailed discussions to follow.

6  
7 After the overview, the first session will consider  
8 the draft decisions on wholesale prices; the second  
9 session, which will come after our break, will cover our  
10 draft decisions on how to implement the wholesale prices;  
11 and, finally, the third session will provide an opportunity  
12 to raise any further questions or comments.

13  
14 Within each of the first two sessions, a member of the  
15 IPART secretariat will give a brief presentation  
16 introducing each topic. I will then invite participants at  
17 the table to provide comment. Following discussion by  
18 those around the table, I will then invite those in the  
19 general audience to pass comment.

20  
21 The public hearing will be transcribed. Therefore, to  
22 assist the transcriber, I ask that on each occasion you  
23 speak to please identify yourself and, where applicable,  
24 your organisation before speaking. I also ask that you  
25 please speak clearly and loudly.

26  
27 A copy of the transcript will be made available on our  
28 website.

29  
30 I will now hand over to Anita Payne, from the  
31 secretariat, who will provide an overview of our  
32 review and our draft decisions. Thank you, Anita.

33  
34 SESSION 1 - Draft decisions on wholesale prices

35  
36 MS PAYNE: Thank you, Peter.

37  
38 As Peter mentioned, the purpose of my presentation  
39 today is to give a brief overview of our review process and  
40 the key draft decisions that we have made. Justin will  
41 then provide some more detailed slides on our pricing  
42 decisions and, after the break, I will then present some  
43 more detailed slides on our implementation decisions.

44  
45 This is our review timetable. We commenced this  
46 review in June 2015 as part of our review of Sydney's Water  
47 and Hunter Water's retail prices. We released issues

1 papers in September and we held a public hearing solely  
2 dedicated to wholesale pricing in December 2015.

3  
4 We subsequently made a decision to separate the  
5 reviews of our retail prices and wholesale prices, given  
6 that this is the first time that we have looked at  
7 wholesale prices, in order to take a bit longer and to have  
8 more time for stakeholder consultation.

9  
10 In April 2016, we released a discussion paper and we  
11 have just released a draft report and draft determinations.  
12 There is one draft report and there are two draft  
13 determinations - one for Sydney Water and one for Hunter  
14 Water.

15  
16 This slide [slide 5] provides an overview of the key decisions  
17 that we have made. Essentially, as Peter mentioned, there  
18 are two groups of decisions. The first is pricing  
19 approaches, which covers where we have looked at what  
20 wholesale services are, the nature of those services, and  
21 considered the appropriate pricing approaches and prices to  
22 applying for those services.

23  
24 The second group of decisions are on implementation.  
25 These cover, in particular, whether we should set  
26 system-wide typical or average prices or scheme-specific  
27 prices.

28  
29 As you will be aware, we have decided to apply a  
30 combination of those options. We have set system-wide  
31 prices, but we have also provided for wholesale service  
32 providers and wholesale customers to request IPART to  
33 undertake scheme-specific reviews.

34  
35 The key questions that we considered throughout this  
36 review are, firstly, the nature of wholesale services and  
37 customers:

38  
39 How do these differ from the retail services that we  
40 already set prices for?

41 What are the services that are currently being  
42 provided by Hunter Water and Sydney Water to wholesale  
43 customers?

44 What services are those wholesale customers providing  
45 to end-use customers?

46 What services should we include in this review? What  
47 are the wholesale services that we should be setting prices

1 for as part of this review?

2  
3 We then considered the appropriate pricing approach  
4 for each of those services. Options that we looked at  
5 included the retail prices, the cost of service approach  
6 and also retail-minus prices.

7  
8 Thirdly, we looked at implementation - should we set  
9 system-wide prices or scheme-specific prices? We have also  
10 considered whether or not our prices should apply to  
11 existing and/or new schemes.

12  
13 In summary, our pricing decisions are that we have  
14 decided to set prices for four services, the first two  
15 being on-selling water and sewerage, and then two services  
16 associated with recycled water plants - drinking water  
17 top-up to recycled water plants and recycled water plant  
18 waste disposal.

19  
20 These are the four services that we have identified  
21 and the four services that we have set draft prices for.  
22 We have decided to set a retail-minus reasonably  
23 efficiently competitor cost price for the on-selling water  
24 ant sewerage services and to apply the retail  
25 non-residential prices to those services associated with  
26 recycled water plants.

27  
28 We have also considered the issue of facilitation  
29 costs, which are the costs or cost savings that are  
30 incurred by Hunter Water and Sydney Water in supplying  
31 wholesale customers. We have decided that facilitation  
32 costs should be reflected in wholesale prices and we have  
33 set out some specific criteria and principles we would  
34 apply in considering those.

35  
36 In summary our implementation decisions, as  
37 I mentioned, are that we have decided to set system-wide  
38 prices. This reduces the need for costly and  
39 time-consuming scheme-specific reviews. However, we have  
40 provided the option for wholesale service providers or  
41 customers to request that IPART undertakes a  
42 scheme-specific review if these system-wide prices don't  
43 reflect the specific scheme characteristics.

44  
45 We decided that the system-wide prices that are set  
46 out in our draft determinations should apply to new  
47 wholesale schemes only. This means that parties to

1 existing agreements, where there are existing wholesale  
2 schemes, can decide whether to retain their current  
3 arrangements or request that IPART undertake a  
4 scheme-specific review.

5  
6 Our other key decision in terms of implementation  
7 relates to the length of determination. It will commence  
8 from 1 March 2017 - our final report and final  
9 determinations are due to be released in February - and it  
10 will continue until 30 June 2021.

11  
12 We have also allowed for wholesale service providers  
13 and wholesale customers to seek or opt into unregulated  
14 agreements - that is, they can choose to opt out of our  
15 determined prices. This is a similar approach to what we  
16 undertook in our retail review.

17  
18 I will now hand over to Justin, who will provide a  
19 detailed explanation of our draft decisions on pricing  
20 issues.

21  
22 THE CHAIRMAN: Thank you very much, Anita. Justin?

23  
24 MR ROBINSON: Thank you, Peter.

25  
26 As this is the first time that we have reviewed  
27 wholesale prices, we needed to consider the nature of  
28 wholesale services and customers. For this review, we  
29 consider a wholesale service is a service purchased from  
30 Sydney Water or Hunter Water that is used by the wholesale  
31 customer to compete for retail services and is a monopoly  
32 service and is used to provide a service to end-use  
33 customers that is the same or a close substitute to the one  
34 provided by Sydney Water or Hunter Water, and the service  
35 purchased by the wholesale customer is actually used by a  
36 WIC Act licensee to supply end users.

37  
38 Our draft report identified three types of wholesale  
39 services:

40  
41 Drinking water and sewerage for on-selling;  
42 Drinking water for top-up of a recycled water system;  
43 Recycled water plant waste disposal.

44  
45 The identification of these individual services is a  
46 key difference between our discussion paper that was  
47 released in April, which considered wholesale services at a

1 more aggregated level. By identifying these individual  
2 services to be included in this review, we have considered  
3 the nature of each of these individual services and the  
4 pricing approaches that should apply.

5  
6 This slide [slide 12] depicts possible wholesale servicing  
7 arrangements and the services that we have set draft prices  
8 for. This is a simplified diagram - the characteristics of  
9 each scheme will vary in terms of the services provided,  
10 the connections and metering arrangements.

11  
12 In the top middle of the diagram, we have a WIC Act  
13 licensee buying drinking water to sell drinking water to  
14 retail end-use customers. This is what we consider  
15 on-selling water.

16  
17 On-selling sewerage occurs where a wholesale customer  
18 buys a sewerage service to directly discharge its  
19 customers' wastewater into Sydney Water's or Hunter Water's  
20 network.

21  
22 On the left-hand side of the slide, we see a drinking  
23 water connection to the recycled water plant. This is for  
24 drinking water top-up services for the recycled water  
25 system to ensure continuous supply.

26  
27 On the right-hand side and lower portion of the slide  
28 we have the recycled water system that is collecting  
29 wastewater from retail end-use customers through a sewerage  
30 service and treating the wastewater to create a non-potable  
31 water source. From this recycled water plant, the waste  
32 product from the production of non-potable water is  
33 discharged into Sydney Water's or Hunter Water's sewerage  
34 system. This is the recycled water plant waste disposal  
35 service.

36  
37 I will now discuss on-selling services and we will  
38 come back to other services later.

39  
40 In our discussion paper we considered for on-selling  
41 services:

42  
43 Retail-minus prices, which is where the wholesale  
44 charge is set based on the incumbent's retail prices for  
45 the end-use customers less a margin - the minus;

46 Cost of service prices, which is where the wholesale  
47 charge is set based on the incumbent's cost of providing



1 water and/or sewerage services to the wholesale customer;

2 The non-residential retail prices, which is where the  
3 wholesale charge is applied based on the incumbent's retail  
4 meter-based prices for non-residential customers.

5  
6 Throughout this review we have stated a preference for  
7 retail-minus prices, particularly for on-selling services.  
8 This is as a result of retail postage stamp prices and  
9 prevailing price structures.

10  
11 The existence of postage stamp pricing for retail  
12 water and sewerage prices is important when considering the  
13 approach to wholesale pricing. Under postage stamp  
14 pricing, Sydney Water and Hunter Water charge all their  
15 retail customers the same water and sewerage prices  
16 regardless of differences in the costs of supplying  
17 different locations.

18  
19 Location-based wholesale cost of service prices would  
20 typically be lower in low-cost areas and higher in  
21 high-cost areas, as shown in the diagram on the screen [slide 14].  
22 This means that the new entrants could out-compete Sydney  
23 Water or Hunter Water in low-cost areas by charging less  
24 than the postage stamp price to end users, even though they  
25 may be less efficient, as Sydney Water and Hunter Water are  
26 bound to retail postage stamp pricing. This would be  
27 inefficient entry in low-cost areas, which is known as  
28 cherry-picking.

29  
30 Cost of service wholesale pricing would also be likely  
31 to create an inefficient barrier to entry in high-cost  
32 areas. This would not increase system-wide efficiency. We  
33 also consider that non-residential prices are not  
34 appropriate for on-selling under prevailing price  
35 structures.

36  
37 Sydney Water and Hunter Water charge customers  
38 differently depending on whether the properties are used  
39 for non-residential or residential purposes. Residential  
40 service charges are applied on a per dwelling basis - that  
41 is, one charge per house, apartment or townhouse regardless  
42 of connection size - whereas non-residential service  
43 charges are applied on a connection size basis - that is, a  
44 charge applied based on the relative capacity of their  
45 water or sewerage connections.

46  
47 Our draft report provides an example of the difference

1 between retail prices for residential customers as opposed  
2 to non-residential customers.

3  
4 This would make it profitable for wholesale customers  
5 to enter the market without providing any additional  
6 services or improving system efficiency as they would pay  
7 the lower non-residential prices to Sydney Water and Hunter  
8 Water while charging the higher residence retail prices to  
9 their customers.

10  
11 We consider that retail-minus is the best approach for  
12 on-selling. It allows wholesale service providers and  
13 wholesale customers to compete for end-use customers on an  
14 equal footing under postage stamp pricing and our retail  
15 price structures for Sydney Water and Hunter Water.

16  
17 We will now move on to the question of retail-minus  
18 what? As I will outline we decided to use a retail-minus  
19 reasonably efficient competitor cost approach.

20  
21 In this review, we considered four ways to estimate  
22 the minus component:

23  
24 Retail-minus avoided cost, where the minus is based on  
25 the cost Sydney Water or Hunter Water would actually avoid  
26 if they no longer directly supplied water or sewerage to  
27 end-use customers;

28 Retail-minus avoidable costs, where the minus is based  
29 on the costs Sydney Water or Hunter Water could avoid if  
30 they no longer directly supplied water or sewerage services  
31 to any end-use customers;

32 Retail-minus as-efficient competitor costs, where the  
33 minus is based on the costs of a new entrant with the same  
34 economies of scale and scope as Sydney Water or Hunter  
35 Water would incur if they were to supply water or sewerage  
36 services from the wholesale connection point to end users;

37 Retail-minus reasonably efficient competitor cost,  
38 where the minus is based on the costs of a new entrant  
39 without having access to the same economies of sale and  
40 scope as Sydney Water or Hunter Water would incur if they  
41 were to supply water or sewerage services from the  
42 wholesale connection point to end users. This approach  
43 would result in a wholesale price that would generally be  
44 lower than other approaches to calculating the minus.

45  
46 In our discussion paper, we identified a preliminary  
47 preference for the retail-minus reasonably efficient

1 competitor cost prices. Our draft decision is that this is  
2 the appropriate pricing approach for on-selling services.

3  
4 The reasonably efficient competitor cost standard is  
5 designed to ensure that a reasonably efficient wholesale  
6 customer can enter the market and match the incumbent's  
7 prices. It would not be feasible for a wholesale customer  
8 to replicate the scale or economies available to Sydney  
9 Water or Hunter Water immediately upon entry.

10  
11 This approach may trade off some immediate productive  
12 efficiency for longer term dynamic efficiency gains from  
13 competition. Greater competition for the water and  
14 sewerage market could create a stronger incentive to Sydney  
15 Water and Hunter Water to reduce their costs of servicing  
16 new developments. As the market matures, there may be a  
17 case to transition away from the reasonably efficient  
18 competitor cost standard.

19  
20 We have also made a draft decision to set system-wide  
21 or typical retail-minus prices to apply to on-selling  
22 services rather than setting these on a scheme-by-scheme  
23 basis.

24  
25 As Anita mentioned earlier, setting system-wide prices  
26 reduces the need for costly and time-consuming  
27 scheme-specific reviews. A key component of this decision  
28 to set system-wide retail-minus prices was the services to  
29 be considered in the minus calculation - that is, the  
30 contestable services. The draft prices are based on the  
31 contestable services being retail and reticulation  
32 services. Retail and reticulation services are the  
33 services that are most commonly provided by wholesale  
34 customers to end-use customers.

35  
36 We also considered the best way to express the minus  
37 component for the draft prices. In our draft  
38 determinations, we have expressed the minus component as  
39 dollars per customer for retail services and dollars per  
40 kilometre for reticulation services.

41  
42 Our draft decision is that the minus for water retail  
43 is \$69.60 per customer and sewerage retail is \$46.40 per  
44 customer. This difference reflects that water customers  
45 typically have more retailing costs, in particular meter  
46 reading.

1 Our draft decision is that the minus for water  
2 reticulation is \$4,227.91 per kilometre of pipeline, and  
3 for sewerage reticulation it is \$7,692.63 per kilometre of  
4 pipeline. This difference reflects that sewerage  
5 reticulation is typically buried deeper in the ground than  
6 water reticulation.

7  
8 As I mentioned, our draft decision is to apply the  
9 minus based on cost drivers - that is, dollars per customer  
10 for retail services and dollars per kilometre for  
11 reticulation services. While there are a number of other  
12 factors that will influence costs, we consider customer  
13 numbers and network length to be the best available and  
14 relatively simple options to apply.

15  
16 Our draft decision is to apply the same minus values  
17 in both Sydney Water's and Hunter Water's areas of  
18 operations. We consider that the costs incurred by an  
19 entrant in providing retail and reticulation services will  
20 not vary significantly, whether they are operating in  
21 Sydney Water's or Hunter Water's areas of operation.

22  
23 To calculate these reasonably efficient competitor  
24 costs, we undertook three main steps. Our draft reports  
25 includes an appendix that explains in detail the  
26 methodology being used to calculate the minus components in  
27 the draft system-wide retail-minus prices.

28  
29 Our first step was to calculate an entrant's building  
30 block costs. We engaged Oakley Greenwood, working with  
31 Parsons Brinkerhoff, to estimate the benchmark unit rates  
32 for retail and reticulation assets, and calculate the  
33 assets and operating costs for three example schemes.  
34 Their report and accompanying spreadsheets are on our  
35 website.

36  
37 We calculated costs for reticulation services on a  
38 weighted average basis for the three schemes considered and  
39 used the retail costs of a utility with 10,000 customers,  
40 acknowledging the economies of scale in billing.

41  
42 Our second step was to calculate the annual average  
43 building block cost in net present value terms over  
44 50 years. In our third and final step, we divided the  
45 annual average building block revenue requirements for:

46  
47 Water retailing by the number of water customers;

1 Water reticulation by the length of water reticulation  
2 in kilometres;

3 Sewerage retailing by the number of sewerage  
4 customers; and

5 Sewerage reticulation by the length of sewerage  
6 reticulation in kilometres.

7  
8 As I mentioned, our draft report includes a detailed  
9 appendix on the methodology we have used. We welcome your  
10 views in your written submissions on the details of this  
11 methodology.

12  
13 These next two slides [slides 19&20] show how to calculate the  
14 maximum price for on-selling water services with reference  
15 to our draft determinations. On the left-hand side of the  
16 screen, it shows how we calculated the retail component.

17  
18 (Interruption in proceedings)

19  
20 MR ROBINSON: Sorry about that, everyone. You may not be  
21 able to read these slides, so I'll just tell you how it  
22 works.

23  
24 On the left-hand side of the screen [slide 19], we are talking  
25 about how we calculate the retail component, which, for  
26 water, is water usage charge multiplied by water volumes  
27 plus the sum of service charges for retail customers.

28  
29 On the right-hand side, it shows how we calculate the  
30 minus, which is the number of customers multiplied by the  
31 retail cost per customer and the length of distribution  
32 pipeline in kilometres multiplied by reticulation costs per  
33 kilometre, and basically the same applies for sewerage,  
34 which we will skip over.

35  
36 The next section we are going to talk about is  
37 recycled water systems and prices for recycled water  
38 systems. Having covered on-selling, we will discuss the  
39 drinking water and recycled water top-up.

40  
41 The first service is drinking water top-up. This  
42 service is for the recycled water system to ensure  
43 continuous supply. As we have discussed before, that is on  
44 the left-hand side of the screen [slide 21].

45  
46 The second service is waste disposal from a recycled  
47 water plant. That is at the right-hand side and the bottom

1 of the screen [slide 21]. For both of these services, we have  
2 decided to apply the non-residential retail price.

3  
4 For pricing drinking water top-up, we decided to apply  
5 a non-residential retail price. That is a non-residential  
6 service charge based on the meter size to either Sydney  
7 Water's or Hunter Water's network and a drinking water  
8 usage charge at the retail rate.

9  
10 Where these connections are metered, the  
11 non-residential service charge will be based on the meter  
12 sizes, and where the connections are not metered, we will  
13 base it on a 100mm connection.

14  
15 There are three main reasons we decided to apply the  
16 non-residential retail price: Firstly, postage stamp  
17 pricing does not apply to regulated recycled water charges.  
18 That is one of the main rationales for a retail-minus  
19 price. Secondly, drinking water is a minor input to  
20 recycled water production. This is only used as needed, it  
21 is not used in fixed proportions to water production, and,  
22 thirdly, a lot of stakeholders supported it.

23  
24 In some instances, wholesale customers will both  
25 on-sell drinking water and use drinking water top-up. In  
26 these instances, the drinking water top-up will be charged  
27 as non-residential prices and on-selling will be charged as  
28 retail-minus reasonably efficient competitor costs - so the  
29 principles are split when they are doing both.

30  
31 This slide is headed "Pricing recycled water plant  
32 waste" [slide 24]. We also decided to apply the non-residential  
33 prices to disposal of recycled water plant waste - that is,  
34 a non-residential sewerage service charge based on  
35 connection size, a sewerage usage charge and trade waste  
36 charges at the retail rate.

37  
38 We decided to apply the non-residential retail price  
39 for a number of reasons: firstly, and similarly to  
40 drinking water top-up, wholesale customers primarily use  
41 sewerage services provided by Sydney Water and Hunter Water  
42 as an input into recycled water production. We consider  
43 this is an input in the same way that sewerage services are  
44 an input to many non-residential customers' production  
45 processes.

46  
47 Secondly, recycled water plant waste disposal may

1 source input water from a number of sources, including  
2 sewerage services to on-sell to end-use customers; sewer  
3 mining; stormwater harvesting; and drinking water top-up.  
4

5 Where a recycled water scheme obtains raw product from  
6 sewer mining or stormwater harvesting, these schemes do not  
7 provide end-user customers with a sewerage service - that  
8 is, they are not on-selling and it makes it difficult to  
9 have the same price for the same service.

10  
11 In addition, we consider that disposal of waste from a  
12 recycled water plant may be a contestable service.  
13 Wholesale customers generally have alternative ways of  
14 disposing of water waste, trucking waste away. Where a  
15 service is contestable, prices should give customers the  
16 efficient signals of what service to use. We consider the  
17 non-residential retail price does this.  
18

19 We understand that recycled water plants are bypassed  
20 and bypass can be temporary - such as where the plant needs  
21 to close for routine maintenance - or permanent - such as  
22 where treating all of a scheme's waste would produce more  
23 recycled water than can be sold, a scheme may choose to  
24 only treat a proportion of the waste produced by its retail  
25 customers.  
26

27 We consider that the non-residential price should only  
28 apply to waste from the production of recycled water.  
29 Where waste is not treated before being discharged into  
30 Sydney Water's or Hunter Water's sewerage network, the  
31 wholesale customer is effectively on-selling a sewerage  
32 service and should be charged accordingly.  
33

34 Another issue we have considered in this review is  
35 facilitation costs. These are the costs or cost savings to  
36 the wholesale service provider of servicing the wholesale  
37 customer. In other words, facilitation costs can be  
38 positive or negative - that is, in supplying a wholesale  
39 customer, Sydney Water or Hunter Water may incur costs or  
40 it may save costs.  
41

42 Our draft decision that, in principle, where these  
43 costs are prudent and efficient, they should be included in  
44 wholesale prices, where they are additional to what the  
45 wholesale service provider would have otherwise incurred,  
46 and not reflected elsewhere in the wholesale price or  
47 recovered by another charging or funding mechanism. It is

1 important to ensure that the wholesale price does not  
2 double-count costs.

3  
4 In addition, we have made a draft decision that  
5 facilitation costs should:

6  
7 Reflect the status of water and sewerage developer  
8 charge;

9 Include positive costs and negative costs cost  
10 savings, where appropriate;

11 Exclude initial transaction costs; and

12 Exclude ongoing administration costs except where they  
13 are material.

14  
15 In practice, given Sydney Water's and Hunter Water's  
16 costs, water and sewerage developer charges are currently  
17 set to zero by the government, positive infrastructure  
18 facilitation costs - such as augmentation to part of the  
19 supply network - should generally be zero where such costs  
20 are prudent and efficient and consistent with the wholesale  
21 service provider's "business as usual" growth plans. This  
22 is because the wholesale service provider would have the  
23 ability to fund these costs via a regulated retail customer  
24 base. We have, therefore, not made any provision for  
25 facilitation costs in draft system-wide wholesale prices.

26  
27 As Anita mentioned earlier, we have made a draft  
28 decision to conduct scheme-specific reviews of wholesale  
29 prices in certain instances. We consider that net  
30 facilitation costs - that is, consideration of costs  
31 and cost savings associated with supplying a wholesale  
32 customer - can only feasibly be considered on a  
33 scheme-by-scheme basis.

34  
35 This concludes my presentation on our draft decisions  
36 on wholesale pricing approaches for this review. We are  
37 interested in hearing your views on draft decisions for  
38 on-selling water and sewerage service; drinking water  
39 top-up; recycled water plant waste; and, facilitation  
40 costs.

41  
42 I will now hand back the hearing to our Chair,  
43 Dr Boxall. Thank you.

44  
45 THE CHAIRMAN: Thank you very much, Justin.

46  
47 In terms of around the table, would you like to start,



1 Kevin, from Sydney Water.

2  
3 MR KEVIN YOUNG (Sydney Water): Always, Mr Chairman.  
4 First a general comment to say that it is so pleasing that  
5 you are tackling the issue of wholesale. It has been a  
6 long time coming and we are very supportive of the IPART  
7 process, because it is transparent, it is public and we  
8 fully support any decision by the tribunal in this  
9 difficult area.

10  
11 THE CHAIRMAN: Thank you.

12  
13 MR YOUNG: I think at the pricing hearing that we had,  
14 I mentioned that we were keen - I will add my voice to the  
15 list of voices asking for this - to have a broad industry  
16 review. We are strongly supportive of that. I think  
17 virtually everyone in the room would be in favour of our  
18 cities having more recycled water and of creating more  
19 liveable cities. At the moment, I think we are fragmented.  
20 That is for another day. We can look at it from a drought  
21 perspective, but there is also the nutrient issue in the  
22 Hawkesbury-Nepean. If you talk to Health, they will talk  
23 about the effects that you can get. There is a value for  
24 people living there, from a developer viewpoint, in having  
25 water as part of the community. There are wider economic  
26 benefits that we have approached, but I will leave that for  
27 another day for perhaps a broader IPART review.

28  
29 We are substantially through our response and we will  
30 submit that within the required timetable. You will find  
31 in it a lot of what is there that we are fully supportive of  
32 what is in the draft determination. It is such a difficult  
33 area, it is probably fair to say.

34  
35 There are a few points I would like to make. With the  
36 REC, it is difficult to determine what that is. From our  
37 point, Sydney Water is the lowest cost supplier of retail  
38 in the water industry in Australia. We have driven that  
39 really low in the past. I understand that it is difficult  
40 without an economy of scale for a small company to achieve.  
41 The question is is it the magnitude that has been said? Is  
42 it three or four times the cost of what Sydney Water can  
43 provide? I think that is the question that needs to be  
44 discussed. It is really a quantum question.

45  
46 Interestingly, from the Sydney Water perspective, we  
47 are looking at the trends worldwide and what is happening

1 in the UK with retail competition. Having visited a number  
2 of private sector utilities, the future is seen as being  
3 private sector players in this area that are coming in to  
4 drive the lower costs of the retailers to put pressure on  
5 the margins there, which are really low.

6  
7 You would have seen that Castle Water was just formed  
8 in the UK. It was formed by a couple of merchant bankers  
9 who actually see a future in multi-utility retail. A  
10 number of the utilities have said, "This is the future. We  
11 are getting out of the game." I think Thames Water and  
12 others have said that this will probably be the future.

13  
14 This determination is only for a short time period,  
15 but longer term, I can see this as a competitive market and  
16 they will provide that service to the small companies as  
17 well.

18  
19 Probably the other area for us is the interesting one  
20 of the case when the recycled water plant goes offline for an  
21 extended period. The question that we are looking at at  
22 the moment is: how do we plan when we are investing in our  
23 assets? Do we assume that the competitor's plant is not  
24 working? Do we need to allow and invest in a capacity -  
25 for which we will seek IPART's approval - on the basis that  
26 the recycled water plant is not working so we need to move the  
27 full water supply and also the full wastewater load? Is  
28 that something we should invest in? This is a really  
29 interesting case.

30  
31 There are a few test cases, and I was thinking of  
32 Nevada Water, who had a case where one company there  
33 said, "Look, we think we can essentially stay offline for a  
34 certain time period, but every three or four years, we will  
35 need you for a month. Don't worry, during that month we  
36 will pay full price on your water costs as determined by  
37 the price regulator."

38  
39 There is an interesting conundrum there. The  
40 utilities are saying, "If you want us to invest in the full  
41 capacity for that month, there is actually a charge, which  
42 is an insurance charge, which says you are a member of the  
43 club and we will allow for that."

44  
45 These are all going to be different, but from the  
46 Sydney Water perspective, I want to make sure that we get  
47 this right. If there is an expectation that we need to

1 invest for the full load, then we need to factor that in.  
2 It may be more like a non-residential, which occurs with a  
3 number of industries. We have relationships contractually  
4 with those and we say, "If there are major problems with  
5 your plant, please get to us early so we can program this  
6 in advance", then we can then do it at the best time when  
7 we do have capability. There is an extra level of  
8 complexity there, but we work with them well so we can meet  
9 their needs and those of the individual business.

10  
11 In the last few years we have put a new model in  
12 Sydney Water which is customer-centric. It says that our  
13 game is that we care for the long-term interests of  
14 customers and that does not mean the long-term interests of  
15 Sydney Water. What we are about is whatever the best  
16 result for customers is what we stand for here - so the  
17 best result for customers, the best result for the  
18 community.

19  
20 I think the issue is if the reasonably efficient cost is three  
21 or four times what we are paying, of course, that will come  
22 back as a revenue shortfall which we will distribute - with  
23 IPART's support - across the rest of the customer base, and  
24 I think that is why IPART tackle these traditionally  
25 different areas. We look forward to the stakeholder  
26 discussion today.

27  
28 MS DANIELLE FRANCIS (Sydney Water): I will give a quick  
29 summary on a more technical level, I guess, and an  
30 overview of our position with regard to the four points you  
31 have on the slide there.

32  
33 In terms of on-selling water and sewerage, we support  
34 IPART's draft decision to use a retail-minus approach. We  
35 are aware that there are a lot of different views on  
36 postage stamp pricing in the world, but in the context of a  
37 postage stamp pricing environment, we believe that a  
38 retail-minus is the only way to really support that.

39  
40 We do note that the REC is quite generous to a new  
41 competitor. It is certainly far more significant in scale  
42 than our costs for those services.

43  
44 One question that we would raise respectfully here is  
45 whether that is an appropriate and accurate reflection of  
46 the scale of some of the new entrants. We don't know that.  
47 There is not a lot of transparency around the actual costs

1 of those arrangements, so we are not in a position to be  
2 able to judge whether that is an appropriately accurate  
3 factoring of the scale of new entrants to the market.  
4

5 With regard to drinking water top-up, we do not have a  
6 particular issue with that. In our view, there is an  
7 on-selling arrangement, but we felt that a non-residential  
8 price was appropriate for that, so we think the outcome is  
9 okay and we don't have problem with that.  
10

11 The one that we probably have most concern with is the  
12 disposal of recycled water plant waste. In essence, we do  
13 not believe that the proposed arrangements are appropriate,  
14 as Kevin alluded to. We are not sure that they capture  
15 where they fully compensate us for the costs we might have  
16 to incur all year round. You are welcome to some insight  
17 on this. Where we see it, there would probably be an  
18 expectation that we would be able to cater for the full  
19 waste of a new entrant scheme at some points in time and  
20 partial in other times. In that sense, as we are the major  
21 provider, we have to continue to maintain that capacity in  
22 the asset. By providing the non-residential price some of  
23 the time, we do not believe that that captures it  
24 adequately. We think, ultimately, that, in effect,  
25 requires our customers to have to subsidise that and that  
26 is something we are interested in.  
27

28 We don't have particular concerns with the  
29 facilitation costs. Obviously we want to make sure they  
30 are captured in some way, but we support setting the price  
31 at the outset. Thank you.  
32

33 THE CHAIRMAN: Thank you very much, Danielle. I was  
34 wondering, Matt or Justin, whether you would like to make a  
35 comment about the scale issue?  
36

37 MR EDGERTON: Before I do, Danielle, what do you see are  
38 the implications of your question or concern? You suggest  
39 that the entry of alternative suppliers to date may not  
40 match the scale we have assumed in calculating the  
41 reasonably efficient competitor costs.  
42

43 MS FRANCIS: That's right  
44

45 MR EDGERTON: What do you see are the implications of  
46 that?  
47

1 MS FRANCIS: Obviously there is a revenue shortfall for us  
2 in the sense that the costs we might avoid might be \$X, and  
3 that is why there was originally talk of the equally  
4 efficient competitor cost. Then that has transitioned to  
5 the reasonably efficient competitor cost, which is a  
6 greater discount, if you like, from the postage stamp  
7 retail price. There is a revenue shortfall in that.  
8 Obviously the decision has to be made as to how that gets  
9 captured. In this cost recovery environment, there has to  
10 be a way for Sydney Water to capture any gap between the  
11 costs that we are essentially avoiding, if you like, in a  
12 price we might be getting from a competitor. That outcome  
13 is part of my question, which is about what the impact for  
14 us is.

15  
16 This is just more of a comment than a question  
17 necessarily, which is just to note that we have been a  
18 regulated entity for a long time. We are subject to the  
19 transparency of price reviews so everybody gets to have a  
20 pretty good overview of what our costs are in providing our  
21 services. There seems to be an assumption built into this  
22 that a new entrant will just not have the same advantages  
23 of scope and scale as us so, therefore, there is a draft  
24 decision to give them a higher discount, if you like. This  
25 is just a comment that we do not have transparency on that.  
26 It may be interesting over time to see whether there will  
27 be more transparent regulation of new entrants as well as  
28 us.

29  
30 MR EDGERTON: To answer your question, we are receiving,  
31 I guess, indications from some of the WIC Act licensees  
32 that the scale we have assumed in calculating that cost is  
33 actually a lot higher than what they are realising at the  
34 moment. In that context, they are suggesting the  
35 reasonably efficient competitor costs should be higher, the  
36 minus should be higher, but I understand that is probably a  
37 discussion we will get on to later.

38  
39 MS FRANCIS: It is just that we need information. We do  
40 not have access to that information.

41  
42 MS HEIDI MURAS (Sydney Water): We are really interested  
43 in the views that the other parties will raise today as  
44 well. As we were thinking about this, a lot of the  
45 functions that we were talking about are functions that we  
46 would traditionally outsource, both in retailing and in  
47 reticulation. From our point of view, we were thinking

1 that perhaps there was not that much of a difference  
2 between an incumbent and a new entrant if the company  
3 delivering the service could potentially be the same  
4 company, just hired by a different party.  
5

6 THE CHAIRMAN: Thank you very much, Heidi. Jim, from  
7 Hunter Water.  
8

9 MR JIM BENTLEY (Hunter Water): Thank you, Chair - and  
10 thank you, Heidi, for the microphone.  
11

12 First of all, let me say I applaud the fact that you  
13 are undertaking this review. Having worked for Thames  
14 Water some 20 years ago, the conversation there was always  
15 about retail competition and where is it coming from and  
16 when is it coming? Without wanting to betray my former  
17 employer, you sometimes felt in the system there that we  
18 were quite good at explaining lots of reasons why  
19 competition was probably not applicable in water in the  
20 same way as it was in some other utilities.  
21

22 I fully agree with Kevin that our approach in Hunter  
23 Water is that our job is to do the best thing for the  
24 customer and the community. That is not necessarily the  
25 best thing for Hunter Water or, dare I say it, even for the  
26 MD of Hunter Water. Our job is not obviously to look after  
27 Hunter Water's interests but those of the customers. We  
28 fully applaud the initiative and the opportunity to  
29 actually get into this competitive space, as it were.  
30

31 I also agree with everything that my colleagues at  
32 Sydney Water have said, so I will not repeat all of that  
33 and delay us further, but perhaps there are a couple of  
34 points.  
35

36 One thing that I think we need to consider for the  
37 long term, and this might come into the wider review, is  
38 that there is a lot of thinking around integrated water  
39 management and the benefits that could have for health, the  
40 environment and all those sorts of things. Somehow we need  
41 to make sure that whatever we are doing here does not make  
42 it harder to have an integrated approach to water  
43 management. I accept that we have a part to play in that  
44 as well as the other players. I think a system approach,  
45 system review, some systems thinking at some point around  
46 integrated water would be a good thing.  
47

1           On the reasonably efficient competitor costs, I share  
2 the views of my colleagues at Sydney Water and look forward  
3 to the exchanges that we will have later on.  
4

5           As for the recycled water, the capacity issue remains  
6 a concern for us and particularly any investment that we  
7 would otherwise have to make in ensuring that we are able  
8 to take the flow should that be required and also how do we  
9 ensure that? Also if the reason that the right solution to  
10 this is that we have a recycled water system on-site, how  
11 can we make sure we are incentivising the maximisation of  
12 that recycled water system?  
13

14           I think I can leave my comments there, thank you.  
15

16 THE CHAIRMAN: Thank you very much, Jim. Anybody else  
17 from Hunter? Fiona or Peter?  
18

19 MS FIONA CUSHING (Hunter Water): In terms of the  
20 reasonably efficient cost, we have done a little bit of  
21 modelling in our own areas, in a number and size of areas  
22 in our area of operation. The minus component, when we  
23 have actually modelled that for those areas, comes out at  
24 retail-minus 50 to 60 per cent.  
25

26           One other piece of work that we have done recently is  
27 looking at the entire value chain of our business from the  
28 dams through to basically treatment of wastewater. We have  
29 found that 35 per cent of our value chain relates to total  
30 retail costs and the total costs of water transportation in  
31 our network - that is, trunk mains, operating costs and  
32 also the return on and of capital.  
33

34           I suppose when we look at our value chain, our total  
35 retail and our total water network costs are actually  
36 35 per cent, so the retail-minus 50 or 60 per cent does  
37 appear to be rather exaggerated in terms of reasonably  
38 efficient.  
39

40           For a specific example, I think in the report there  
41 is a comment around \$500 for a water meter. The  
42 IPART-approved miscellaneous charge for installation and  
43 supply of a water meter is \$128. So \$500 versus \$128 in  
44 terms of economies of scale for water-meter installation  
45 and supply does seem again slightly exaggerated, just in  
46 that one small example.  
47

1 THE CHAIRMAN: Thanks very much, Fiona. Peter?

2

3 MR PETER SHIELDS (Hunter Water): I have a question about  
4 recycled water plant waste. We do have a concern that we -  
5 Hunter Water - versus wholesale customers have a different  
6 set of rules that are coming out of this pricing decision.  
7 In the counterfactual, if we were to offer a recycled water  
8 solution to a new development, then IPART would set our  
9 wastewater charges to recover the prudent efficient costs  
10 of providing that wastewater solution. On the recycled  
11 water side, we would have to ring-fence all of those  
12 revenues and costs associated with investing in a recycled  
13 water plant.

14

15 We do not have the ability to use revenues from  
16 customers within a development to underwrite some of the  
17 costs of investing in a recycled water facility; whereas  
18 the determination allows the wholesale customers to still  
19 charge all of their end-use customers in the development -  
20 well, they offer a parity price, which are effectively  
21 Hunter Water's or Sydney Water's prices, but they are  
22 discharging those flows back into our system at  
23 non-residential charge.

24

25 Looking at the worked examples in your report, about a  
26 tenth of the revenue is coming back into our system via  
27 discharges from the recycled water scheme. We think that  
28 that is going to make it difficult for Hunter Water to  
29 compete to provide recycled water solutions.

30

31 THE CHAIRMAN: Thanks very much, Peter. So let's move  
32 over to Flow Systems. Who would like to start? Steve?

33

34 MR STEVE HALL (Flow Systems): Thanks to IPART for  
35 inviting us along today.

36

37 I feel like I need to address the point that has been  
38 raised by both Sydney Water and Hunter Water, which is this  
39 question of whether Sydney Water and Hunter Water should  
40 assume that their infrastructure assets should be sized to  
41 cater for the full load from a recycled water plant in case  
42 a competitor's plant fails and needs to be offline for an  
43 extended period.

44

45 The simple answer is absolutely not. There is no  
46 expectation whatsoever that recycled water plants need  
47 redundancy, and IPART knows this very well because they



1 assess a lot of our licence applications where we simply  
2 don't have that. Very few of our plants have that. To us  
3 it is a luxury. It usually comes in an urban renewal  
4 setting where we are doing, say, a high-rise development  
5 and there happens to be public utility asset in place.  
6 Really, it gets used in the start-up phase because there is  
7 a certain amount of time that it takes to construct a  
8 recycled water plant and have it validated in accordance  
9 with the regulatory regime that is in place.

10  
11 It also takes a certain number of customers to be  
12 connected from a technical point of view to bring that  
13 plant online. However, most of our schemes don't have  
14 that. To assume that it is required and therefore needs to  
15 be factored in to the costing, I think is certainly  
16 something that needs to be discounted.

17  
18 I will go through a number of other key points.  
19 Essentially, we still maintain the position that we took  
20 earlier that the draft retail-minus tariff determination is  
21 suboptimal compared to the current non-residential tariff,  
22 which we believe sets better outcomes for customers, for  
23 innovation in general, for the environment and for  
24 efficiency and competition.

25  
26 One of the main reasons we say that is because we  
27 think that the determination has failed to take into  
28 account and recognise that one of the key services provided  
29 by WICA licensees is the actual production for recycled  
30 water from sewage. Justin mentioned that the determination  
31 only takes into account the costs of providing the customer  
32 retail services and operating the reticulation network  
33 assets in the minus calculation.

34  
35 For us, the fundamental premise of WICA in the first  
36 place was to really encourage innovative water recycling  
37 schemes, and that was to take pressure off existing  
38 infrastructure - that is, the pressure of urban growth on  
39 existing infrastructure. We really do not understand why  
40 IPART would not take the production of recycled water from  
41 the sewage into account in calculating the minus cost.  
42 That represents a margin squeeze for us and that is a real  
43 problem.

44  
45 I have a question around estimating the minus. Does  
46 IPART use the retail or the end-user volume for the purpose  
47 of allocating the fixed charge per end user but use the

1 wholesale volume for the purpose of calculating the usage  
2 charge? If that is correct, for that reason alone, then  
3 IPART's method yields a wholesale price that we think fails  
4 the efficient competitor test. This is a very large error  
5 in volume which we think needs to be corrected.

6  
7 THE CHAIRMAN: Justin or Matt?

8  
9 MR ROBINSON: Could you repeat that, please?

10  
11 MS MURAS: Yes, please.

12  
13 MR HALL: The question was: in estimating the minus  
14 component, does IPART use the retail volume for calculating  
15 fixed charge per end user but the wholesale volume for the  
16 purpose of calculating the usage charge?

17  
18 MR ROBINSON: For the minus, there is no component that is  
19 related to the usage. The minus is customer numbers and  
20 length of reticulation. There is no minus related to  
21 usage.

22  
23 THE CHAIRMAN: Thanks, Justin. Matt, go ahead.

24  
25 MR EDGERTON: Sorry, Steve I was going to ask you a  
26 question.

27  
28 MR HALL: Sure.

29  
30 MR EDGERTON: I want to clarify something. You mentioned  
31 that there is essentially, in most cases, no spare capacity  
32 in a recycled water plant.

33  
34 MR HALL: No, that there was need for redundancy.

35  
36 MR EDGERTON: Exactly, sorry. No need for redundancy,  
37 which would suggest that most of the waste is going from  
38 your recycled water plant to Sydney Water's or Hunter  
39 Water's network.

40  
41 MR HALL: No, to end users. Oh, sorry, the waste, the  
42 residual?

43  
44 MR EDGERTON: Yes.

45  
46 MR HALL: Yes, or it might be to one of our other plants  
47 depending on the nature of the residual.

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MR EDGERTON: In which case, under our draft determination, you would be subject to the non-residential price, not the retail-minus price. The retail-minus price would only come into play if you are bypassing and not using your recycled water plant.

MR HALL: Yes, I understand that.

MR EDGERTON: I just wanted to understand those two points. On the one hand, there is no need for additional capacity given your recycled water plant, but, on the other hand, the concern about retail-minus when retail-minus would not apply if you are bypassing.

MR HALL: Sure, thank you, Matt.

The point I was really trying to make was that we have that luxury of having a public utility sewer to discharge into in some settings. In a land/housing setting, we do not have that luxury, so we design, operate and we regulate to operate and design and construct - as you know, we have operational audits every year - to make sure that we do not have to rely on anything else and that the plants are not going to fail and therefore we need to rely on them.

The fact that we have them in the high-rise settings is not because the plant might fail and therefore we need that capacity; it is just there because it happened to be there anyway. Again, the likelihood of one of our schemes being unviable, say, if Sydney Water had to amplify the wastewater system in an inner city setting is unlikely. We use it when we are in start-up mode but, after that, we would intend that we would never have to use it.

I totally understand that where we do not use it, the retail-minus does not apply. I wanted to make sure that Hunter Water and Sydney Water are clear that recycled water schemes do not need 100 per cent redundancy from a public utility standpoint.

THE CHAIRMAN: Thanks, Steve.

MS CUSHING: Can I ask one question?

THE CHAIRMAN: Yes, Fiona.

1 MS CUSHING: It is only a minor point of clarification.  
2 Generally speaking, a recycled water plant does need to be  
3 offline for some time for maintenance purposes. Are you  
4 saying that you have capacity within the way that your  
5 systems are set up to actually have the plant potentially  
6 offline to do perhaps biannual maintenance or something  
7 along those lines on the membranes?  
8

9 MR HALL: Plants are designed so they never have to be  
10 completely offline, or if you have to take the treatment  
11 train offline for a period of time, there is sufficient  
12 storage to take that into account. It is effectively just  
13 an advanced sewerage treatment plant, so it is no different  
14 to any of yours. You don't have to take it completely  
15 offline to do your maintenance. You build in things like  
16 duty/standby, so you can take one part of it offline while  
17 you still have another train.  
18

19 THE CHAIRMAN: Thanks, Steve. Simon, did you want to say  
20 something, or Lisa?  
21

22 MR HALL: I still have a few other points if I may.  
23

24 THE CHAIRMAN: No, that's fine.  
25

26 MR HALL: I touched on the key point that we do not think  
27 it encourages innovation or competition, therefore will not  
28 bring the benefits to water and sewerage customers. It  
29 fails to take into account both the economic and commercial  
30 logic of integrated water cycle management and the  
31 associated market and technology changes that come from the  
32 adoption of integrated water cycle management, that enable  
33 the efficient bypass - I think "bypass" is a misleading  
34 term there - of existing water and sewerage infrastructure.  
35

36 I will give you an example. There are positive  
37 externalities from those things which benefit  
38 customers of the wholesale suppliers and also the broader  
39 community. By having these schemes in place and having  
40 less reliance on that existing infrastructure, we get  
41 externalities, like avoiding pollution from sewage  
42 overflows because there is not as much pressure put on the  
43 sewage system or just environmental disposal of partially  
44 treated sewage. These things do not seem to be taken into  
45 account in this draft determination.  
46

47 We think that the draft determination is inconsistent

1 with IPART's stated objective of encouraging competition  
2 where efficient, and we think it will eliminate existing  
3 and future efficient competition and reduce overall  
4 efficiency and potentially increase future prices.  
5

6 We note that the retail-minus method has been  
7 specifically banned in the UK Water Act and also in New  
8 Zealand's Telecommunications Act. We know that in the UK  
9 the ECPR, which is the Efficient Component Pricing Rule,  
10 was found to represent an illegal margin squeeze in the  
11 2006 UK Competition Appeal Tribunal decision. We believe,  
12 as I said before, it creates an inefficient barrier to  
13 competition and innovation and therefore it is inconsistent  
14 in protecting customers from abuses of monopoly power and  
15 promoting competition.  
16

17 Given the early stage of the WICA market development,  
18 we believe that this draft determination may create an  
19 insurmountable barrier to entry. We have done some of our  
20 own financial modelling obviously since the draft  
21 determination was published, and there are a number of key  
22 new projects that will probably be unviable now for us. We  
23 are struggling to see how new entrants will be able to  
24 bring recycled water and other innovative water projects to  
25 market as a result of the tariff.  
26

27 We are still not convinced about IPART's justification  
28 for why it selected retail-minus as the way of addressing  
29 this issue. We say that on the basis that everything seems  
30 to go back to postage stamp obligations and this notion  
31 that postage stamp pricing is sacrosanct and cannot be  
32 changed. We think that is flawed thinking. We are  
33 concerned that we are potentially introducing a flawed  
34 methodology to address a separate issue which in itself  
35 might be flawed.  
36

37 THE CHAIRMAN: Just on that, postage stamp pricing is the  
38 current policy of the government, so this is a  
39 determination of wholesale price with that as a given.  
40 I would imagine that if the government were to request  
41 IPART to do a broader review, which is what stakeholders  
42 have put in for, that that could well be one of the things  
43 that would be reviewed. However, at the moment postage  
44 stamp pricing is a given, so for us to set wholesale prices  
45 assuming that postage stamp pricing was not there could  
46 lead to some rather undesirable consequences.  
47

1           On the environment point, which is a good point, in  
2 our report on retail prices for Sydney Water, we devoted  
3 some commentary in a chapter on liveability which touched  
4 on issues of the environment and external benefits from  
5 recycled water and other things like that.

6  
7           Taking the example that you gave, namely, that if  
8 there are more plants recycling sewage there is less  
9 pressure on the sewerage system in terms of the out-drop,  
10 that is already regulated by the Environmental Protection  
11 Agency and in various other regulations and, indeed, in  
12 some legislation. Sydney Water and Hunter Water have to  
13 comply with that. It does cost them in some instances to  
14 comply with that, so that is actually fed into the prices,  
15 the retail prices.

16  
17           In a sense, those externalities are already taken into  
18 account in the setting of the retail prices for Sydney  
19 Water and Hunter Water and, hence, given that the wholesale  
20 prices are very much anchored by the retail prices, either  
21 directly in terms of non-residential retail price or  
22 indirectly through retail-minus, those things are  
23 incorporated in there.

24  
25           We welcome any further discussion, but I thought  
26 I would make that point.

27  
28 MR HALL: Thank you, Peter. I think the point was around  
29 a lot of modelling that is done by Sydney Water to comply  
30 with their environmental protection licence obligations  
31 does not take them into account. I understand why it can't  
32 be done because you don't know whether there will be  
33 recycled water schemes, but if they were able to be taken  
34 into account, then that would actually help defer or,  
35 hopefully, reduce the amount of investment that Sydney  
36 Water and Hunter Water would have to make in meeting those  
37 compliance requirements.

38  
39 THE CHAIRMAN: Matt?

40  
41 MR EDGERTON: Steve, I guess what you are touching upon is  
42 facilitation costs. In our draft report, we talk about  
43 negative and positive facilitation costs. You are  
44 suggesting there are negative facilitation costs or cost  
45 savings associated with your activities for Sydney Water  
46 and Hunter Water.

1           Our approach for the draft determination is basically  
2 to recognise that if there are any such cost savings to  
3 Sydney Water or Hunter Water, they are actually very  
4 difficult to determine on a typical or average basis.  
5

6 MR HALL:     Sure.  
7

8 MR EDGERTON:   That is why they are not addressed in our  
9 system-wide outreach prices. However, we have said to the  
10 extent that either party thinks there are facilitation  
11 costs and they are sufficiently material, that might be a  
12 reason why you seek a scheme-specific determination, but  
13 just the nature of those costs means it is impossible to  
14 determine on an average basis.  
15

16 MR HALL:     Sure, thank you.  
17

18 MR SIMON ORME (Representing Flow Systems): To add to that  
19 point on the water side, and I acknowledge that at this  
20 stage it is fairly marginal, if you add up all the  
21 recycling schemes in one of the appendices to this, there  
22 must be some effect at the margin on water, over water  
23 demand and hence water security. As everyone in this room  
24 I presume knows, the water charges are based on a  
25 forward-looking LRMC methodology and that goes up as  
26 additional increments of supply might be required. The  
27 number that you have - I think in Sydney Water's case it is  
28 2 cents a kilolitre - reflects that.  
29

30           I guess the thing is when looking at system-wide - is  
31 it positive, is it negative facilitation costs - whether  
32 there is any scope to consider, in the longer term, the  
33 impact on overall demand. Really the probability of ever  
34 switching on desalination must be lower to the extent that  
35 you are allowing water to be substituted through these  
36 recycling schemes.  
37

38 THE CHAIRMAN:   Thanks Simon. Steve, do you have any more  
39 to add?  
40

41 MR HALL:     Yes, I have a couple of more points to make.  
42

43           We believe that the proposed retail-minus method could  
44 incentivise the wrong behaviour. I will give you some  
45 examples of that. It is apparent that IPART has listened  
46 to some of the industry arguments and has made significant  
47 attempts to incorporate these into the determination.

1 Again we believe that the retail-minus tariff is and always  
2 will be the wrong tariff to capitalise in a water  
3 innovation market. The best outcome, in our view, is for  
4 customers to have a competitive market where there are  
5 innovative options for water supply management agreements,  
6 and retail-minus rewards "business as usual" centralised  
7 thinking and outcomes and therefore has more potential to  
8 create upward pressure on pricing.  
9

10 The WICA market itself wants more sustainable and  
11 efficient water management practices which involve less  
12 infrastructure and smarter technologies. The way this  
13 retail-minus determination has been calculated, it seems to  
14 reward more infrastructure. This notion of having more  
15 kilometres of pipes, therefore, we get a greater minus  
16 component seems to be counterintuitive to having less  
17 infrastructure and being more efficient.  
18

19 Because of the different tariffs around  
20 non-residential for treating recycled water plant waste  
21 compared to putting it into the sewer, we could have a  
22 scenario where we treat that sewage and then just put  
23 recycled water into the sewer to pay a lower tariff and it  
24 could be more cost effective. However, I think, as Sydney  
25 Water and Hunter Water have both pointed out, that would  
26 not be optimal. It just does not make sense for anyone to  
27 do that.  
28

29 The market wants to move towards one bill for all  
30 water services in precincts. We don't think it makes sense  
31 for customers to have separate bills from separate  
32 utilities for water services. We believe that retail-minus  
33 will encourage multiple bills from multiple utilities so it  
34 could make providing some of those services just not worth  
35 it.  
36

37 We think that it could restrict investment in  
38 providing recycled water schemes to some of the more low  
39 growth area rather than the high-growth areas where there  
40 are substantial benefits to be had. It kills innovation  
41 and new approaches. It incentivises WICA utilities to  
42 build schemes that are just like the incumbent schemes -  
43 more pipes, more water meters and segregating water  
44 meters - rather than coming up with integrated water cycle  
45 management solutions.  
46

47 We do not believe that it reflects the true costs of



1 starting up and running an integrated water cycle  
2 management project because the minus component is  
3 insufficient. As I said before, we do not believe that it  
4 reflects our true costs of producing recycled water from  
5 sewage, which has some avoided cost components that need to  
6 be taken into account.

7  
8 There is also a premise that a reasonably efficient  
9 competitor would have a minimum of 10,000 customers and  
10 that does not reflect the current state of the private  
11 water market. We certainly do not have 10,000 water  
12 customers as yet.

13  
14 It also assumes that entrants have a greater ability  
15 to distribute fixed costs than they actually do have for  
16 some years into the pricing period.

17  
18 We believe the application of the reasonably efficient  
19 competitor tests is fundamentally flawed because it fails  
20 to take into account the economic and competitive benefits  
21 of integrated water cycle management. That is because  
22 almost all of those inefficient costs exist upstream not  
23 downstream from the bulk water supply point or the bulk  
24 sewage off-take point within the reticulation service. As  
25 I said before, the method only considers reticulation and  
26 retail services and it ignores the other parts of providing  
27 integrated water cycle management - both the indirect and  
28 direct costs of those.

29  
30 Also the modelling seems to reflect scenarios where  
31 schemes are at full capacity only. It does not acknowledge  
32 the true costs of starting up and operating a recycled  
33 water scheme. It does not factor in all avoidable costs,  
34 such as water storage and production, transmission of both  
35 water and sewage and obviously the sewage treatment  
36 discharge, both the marginal and augmentation costs, and  
37 associated externalities, as I mentioned before. We  
38 believe that if all of those costs were to be factored in,  
39 we would have a wholesale cost that is substantially lower  
40 than that proposed in the draft decision.

41  
42 To summarise, for us, as I said right at the start, we  
43 believe that to apply this methodology will impose a margin  
44 squeeze on WICA participants like ourselves, therefore, we  
45 ask that IPART either reverts back to non-residential,  
46 which we believe is the normal cost-based method of setting  
47 a wholesale price, or that IPART recalculates the minus

1 calculation to add in those missing components for  
2 participants such as us who are involve in producing water  
3 from sewage and factoring that into the calculation. Thank  
4 you.

5  
6 THE CHAIRMAN: That's a big agenda. Thank you very much,  
7 Steve.

8  
9 MR HALL: I still have a few more points in there.

10  
11 THE CHAIRMAN: Lisa, would you like to answer that?

12  
13 MS LISA McLEAN (Flow Systems): I will not say too much,  
14 but I just have a general reflection which picks up on  
15 Sydney Water's and Hunter Water's point and your point,  
16 Peter, about integrated water cycle management and its  
17 importance for liveability. A reflection from us would be  
18 if you don't want to do anything here today that prevents  
19 that, then new tariff settings are absolutely essential for  
20 our business.

21  
22 THE CHAIRMAN: Thank you, Lisa. Lendlease - Scott or  
23 Frazer?

24  
25 MR SCOTT TAYLOR (Lendlease Living Utilities): To  
26 demonstrate how efficient we are, I am not going read my  
27 script because it is pretty much consistent with what Steve  
28 has said.

29  
30 In the first instance, we would like to thank IPART.  
31 June 2015 seems like such a long time ago and we have been  
32 very thankful to the tribunal for not maintaining the original  
33 timetable. The extra time given to consider our contribution and  
34 discussion has been very welcome and we thank you for that.

35  
36 THE CHAIRMAN: Thank you.

37  
38 MR TAYLOR: We also recognise the efforts behind the scene  
39 to understand what our concerns and perspectives are.  
40 Overarching though, what we would like to say - this is  
41 consistent with what Kevin was saying earlier - is that we  
42 have a broader vision of water management in New South  
43 Wales, which is a customer-centric model - the customer is  
44 at the centre of it - and it is about looking at the  
45 long-term benefits and needs of the customer and of  
46 communities.

47

1           We also see that includes fully integrated water  
2 management, which is the systems thinking that Jim from  
3 Hunter Water mentioned earlier, and one that probably looks  
4 at collaboration rather than competition. What we have  
5 found throughout the process, working both with the  
6 tribunal and members of the government, is that people are  
7 very quick to look for the silver bullet. They want to  
8 know the answer. If we say, "No, we don't like  
9 retail-minus postage stamp pricing", we are told "What's  
10 the answer?" The reality is we do not want to give you the  
11 answer because we think collaboration to come up with the  
12 right regulatory framework is more important.  
13

14           You mentioned, when talking to one of Steve's points,  
15 the question around postage stamp pricing being a policy  
16 decision. There is one question I would have for the  
17 tribunal would be. If you bear with me, analogous to the  
18 water industry is the energy industry and we all know -  
19 well, I will go out and be provocative. This determination  
20 is consistent with promoting coal-fired power stations as  
21 the paradigm for the continued generation of energy.  
22

23           We have conceded today that we are moving to a market  
24 that has the consumer at heart and where customers are  
25 empowered. We have people using battery storage and solar  
26 generation and the like. I think IPART should write to the  
27 government to seek broader tools to allow it to look at how  
28 it can open the water market to allow us to achieve what we  
29 are all seeking and aspire to.  
30

31           I agree with Steve and with Flow that the current  
32 determination has probably been better than we expected,  
33 but there is a risk that people accept it as a good  
34 outcome, and it is simply not a good outcome. It does not  
35 take us long term to where we want to see open water market  
36 reform in New South Wales.  
37

38           I would like to ask IPART to put together some  
39 submissions and to write to the government to identify what  
40 additional tools and assistance you would need to open up  
41 the water market regulation to facilitate better  
42 participation by both private and public interests, not to  
43 see competition but where there is collaboration to get the  
44 best outcomes for the customers.  
45

46 THE CHAIRMAN: Frazer, is there anything you would like to  
47 add?

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MR HILL: Yes. We have a captive audience - I can't help myself.

One of the important things to recognise is that the city is going through unprecedented growth. These prices will operate for the next three and a half years. In that time businesses like ours, businesses like Flow and many other businesses will make some pretty important decisions.

As much as we have an opportunity to have a crack to implement a retail-minus pricing outcome, which might be the best of a bad bunch of the tools that you have in your toolkit, getting it wrong possibly means that there is sort of a lost opportunity within the ability to create integrated water management.

Lendlease is not about making billions of dollars from some sort of arbitrage in water; it is about creating the best places for our customers and for our communities, and that often involves working in good partnership with Sydney Water and Hunter Water. In other instances, it means that we go our own way because of the opportunities and risks associated with dealing with the companies. So we would like to be in a situation where we ultimately all work together to achieve the best possible outcome for customers.

THE CHAIRMAN: Thanks very much, Frazer.

I have been sort of mulling over your comments, Scott. I would say that, having worked in government for a very long time, usually the best way to influence and to get government to do something is not to come out in public when you are a public servant. It is for you guys to work out whether you think the tribunal has it in it - that is, in itself - to make these representations to government or not, and then we will see what emerges from government in terms of the reviews that it commissions us to do.

Any questions from around the floor, or comments?  
Yes?

MR KURT DAHL (Permeate Partners): I have a couple of questions, but I will be brief. We have looked at the access pricing on a number of projects. At the moment we cannot see in the draft determination how access pricing

1 and wholesale pricing work together or whether you get to  
2 choose which ones.

3  
4 THE CHAIRMAN: Matt?

5  
6 MR EDGERTON: Under the Water Industry Competition Act,  
7 there are provisions to seek third party access to Sydney  
8 Water's or Hunter Water's network provided that network is  
9 declared open for access. Our view of this is access  
10 relates to gaining access to that declared monopoly  
11 infrastructure, which is usually a transportation service.  
12

13 In the case of wholesale, what we are looking at in  
14 reality is often a bundled service . For example, on the  
15 water side of things, a WIC licensee may be purchasing a  
16 bundled product of both water and water transportation from  
17 Sydney Water or Hunter Water. I guess that is the  
18 distinction: access is just about access to the  
19 transportation networks, so you would have to enter into  
20 your own arrangements to actually get the water to the  
21 transportation network. The third party access people  
22 would then, in the first instance, seek to negotiate with  
23 Sydney Water or Hunter Water to access that pipeline,  
24 whereas wholesale is that bundled product.  
25

26 This is not, in a way, preventing access or seeking to  
27 override access. There are still those access provisions  
28 in the WIC Act. If somebody does want to seek access, they  
29 can go still go on to the WIC Act and seek access.  
30

31 MR DAHL: I think we would benefit from a paragraph to  
32 explain the interplay between the two.  
33

34 With my second question, there have been already been  
35 some comments about water security. I would also agree  
36 that recycled water adds to our collective water security.  
37 There is a Sydney Water paper, I think, on the level of  
38 water conservation that tries to put a price on water. It  
39 varies depending on how much is in the dam, but that could  
40 be a mechanism to reward people who produce recycled water.  
41 That is my comment.  
42

43 I think one of the things our clients certainly  
44 struggle with is that this determination only goes for  
45 three and a half or four years. Many of these projects  
46 take more than four years to get off the ground. That  
47 needs to be taken into account in terms of the next

1 determination, and whatever that might look like, to  
2 provide some sort of certainty for investment in this  
3 place. If it was to radically change in another four years  
4 time, you would kill off the industry overnight. Maybe  
5 that is more of a comment as well.

6  
7 The last point is there seems to be a lot of  
8 discussion about whether to use residential or  
9 non-residential prices. Table 5.2 of the determination  
10 highlights the basic difference in water and wastewater  
11 changes between residential and non-residential customers.  
12 If that was addressed, then there would not be a discussion  
13 around which pricing mechanism to use - something like  
14 40 or 50 per cent difference, depending on where you are.

15  
16 I think a non-residential customer is more  
17 representative of a wholesale customer because their  
18 demands on the network change, like a non-residential  
19 customer normally does, and the volumetric charges and the  
20 meter sizes are supposed to be reflective of whether or not  
21 the building is online or offline or the business is online  
22 or offline. Those are my comments, thanks.

23  
24 THE CHAIRMAN: Thank you, Kurt. Would anybody else in the  
25 audience like to ask a question or make a comment? Yes?

26  
27 MR ZORAN PEROSKI (Sydney Water): I have a couple of  
28 comments. The first one is that I caution against using  
29 the current entrant's actual customer base. The REC is to  
30 reflect the hypothetical entrant that has achieved a  
31 scale, not where you are at, at the moment. By saying you  
32 are efficient at the moment with the current scale, then  
33 you no longer require an REC, by that logic, so I would  
34 caution by reducing the 10,000 scale.

35  
36 On a similar note, it is quite well known that  
37 networks are oligopolistic to monopolistic to achieve cost  
38 structures. By setting the scale at 10,000 and if a single  
39 entrant then reaches that scale, at what point do you then  
40 remove the REC? Do you wait for all entrants to reach  
41 10,000 before rolling back? Do you allow a step change?  
42 Do you have a glide path? What if you have, as you have in  
43 the UK with Castle Water, a single entrant providing this  
44 service, reflecting the cost structure it would be  
45 oligopolistic to monopolist? You know with the petrol  
46 subsidy new entrants don't ever reach the scale they need.

1           Finally, on the Albion Water case, which is the margin  
2 squeeze, that was retail-minus avoided costs. It is a little  
3 bit disingenuous to suggest that it is a margin squeeze  
4 when you are being given an extra margin with an REC under  
5 retail-minus, in this case, so I don't think we should  
6 conflate the two here either. It really has no bearing.

7  
8 THE CHAIRMAN: Thanks, Zoran. Matt, do you want to make a  
9 comment about the transition from reasonably efficient to  
10 as efficient?

11  
12 MR EDGERTON: In IPART's draft report we have mentioned  
13 that, over time, there may be a case for transitioning away  
14 from reasonably efficient and more towards something that  
15 may be as efficient or avoidable costs. In terms of when  
16 and how that occurs, that is something the tribunal has not  
17 explored in a lot of detail. There is obviously a lot of  
18 judgment required there. I suspect that may be a question  
19 for a future determination.

20  
21 THE CHAIRMAN: Kevin?

22  
23 MR YOUNG: As a follow-up, all the discussions about the  
24 other factors that can be taken into account to encourage  
25 more risk, I heard that as a case for that broader review.  
26 I think that is crystal clear because it is a very broad  
27 area with a lot of value to the community. I am very  
28 buoyed by the fact that everyone is saying that they want  
29 the best outcome for customers and community. I think that  
30 is a thing that unites everyone at the table.

31  
32 I was really pleased to get that clarification from  
33 Flow Systems that they would not require any full capacity.  
34 However, there are also a lot of other players in the  
35 market and not everyone has that view. What we are seeking  
36 is to be crystal clear on what we do need to allow for and  
37 what we don't. That involves the relationship in each case  
38 because, if we get that wrong and it does happen, we don't  
39 want to be in a position where you have sewage running down  
40 the streets. That requires a sort of clarity and  
41 transparency of what we are allowing for and what we are  
42 not. I think that can be done. We can work together on  
43 that to get the best outcome.

44  
45 THE CHAIRMAN: Thank you, Kevin. We have another question  
46 from the audience.

1 MS LISA CURRIE (City of Sydney): Thank you for the  
2 opportunity to speak today. The City of Sydney supports  
3 the introduction of a recycled water plant waste charge.  
4 We think this is a positive step from the last review.  
5 However, there are no worked examples in the draft report  
6 on how this would be applied. The worked example talks  
7 about the on-selling of the sewerage services, but the  
8 on-selling as we have talked about today of sewerage  
9 services would happen when the plant is actually being  
10 bypassed during the start-up, operations, commissioning and  
11 then maintenance. We would appreciate seeing some worked  
12 examples showing how the recycled water waste charge would  
13 be applied and the impacts and the difference between the  
14 retail-minus and that one.

15  
16 I also wanted to echo the thoughts about the broader  
17 review. Both Kevin and Jim talked about what is best for  
18 the community. The draft report determination does not  
19 recognise the public benefits associated with recycled  
20 water such as the security of supply, the reduced amount  
21 of potable in our sewerage networks and the liveability  
22 from urban greening and urban cooling and with regard to  
23 climate change. The City of Sydney would definitely  
24 support a broader review so we can address these bigger  
25 picture issues. Thank you.

26  
27 THE CHAIRMAN: Thank you, Lisa. Are there any other  
28 questions or comments? Yes, Matt.

29  
30 MR EDGERTON: I have a question of Sydney Water and Hunter  
31 Water. In your opening remarks, you indicated that you  
32 were supportive of retail-minus for on-selling but you had  
33 concerns about the minus component. You also suggested  
34 that you were opposed to the non-residential price for  
35 waste from recycled water plants. I wanted to confirm what  
36 is your proposed price for those arrangements?

37  
38 MR YOUNG: I think for the retail-minus, both sides would  
39 say that is not right. We think it is too high and the  
40 other side thinks it is too low - so maybe it is about  
41 right

42  
43 MS MURAS: That was something I did want to clarify. The  
44 reason why we do not support the non-residential price for  
45 recycled water waste disposal is because we still view the  
46 service as an on-selling of sewerage service. In the  
47 earlier IPART presentation, I think Justin explained that



1 the view of the tribunal was that it was an input to the  
2 recycled water service, and we can see that is the case,  
3 but it is also an input to the wastewater service that the  
4 new entrant is selling to their end-use customers. If you  
5 took the connection to the public utility infrastructure  
6 away, that wastewater service would be an end-to-end  
7 service. We still see ourselves as providing a significant  
8 core component of the wastewater service that is being  
9 provided to end-use customers by the new entrant. We would  
10 still provide a recycled water waste plant disposal service for  
11 an on-seller of sewerage service. In line with the  
12 tribunal's views on the appropriate prices for on-selling  
13 services, our preference would be for a retail-minus  
14 approach to be taken.

15  
16 I also want to clarify the potential benefits from  
17 recycled water systems. Again, we absolutely agree that  
18 recycled water and integrated water cycle management  
19 solutions do have benefit. It is just that we are not sure  
20 at this stage of the market whether they are  
21 across-the-board benefits.

22  
23 From our own experience of recycled water, the  
24 benefits are quite location-specific. When we have been  
25 looking at potential avoidable costs to the potable or  
26 wastewater system of having a recycled water plant in a  
27 particular area, they vary depending on the type of plant,  
28 the type of treatment, the location, whether or not it is a  
29 primary or tertiary type of wastewater management solution  
30 that has been put in place there.

31  
32 Again that is why we prefer a retail-minus approach  
33 where those potential net facilitation savings can be taken  
34 into account as a facilitation sort of component of the  
35 price. It is not that we do not want to recognise or  
36 acknowledge that they can exist or that we do not want to  
37 pass them on to the new entrant - we certainly do - we are  
38 just concerned that it may not exist in every scheme and a  
39 recycled water solution may not be the most efficient  
40 servicing solution for the community as a whole in every  
41 scheme. I suppose we would be more supportive of a  
42 scheme-specific type of approach and taking that into  
43 account on a scheme-by-scheme basis.

44  
45 Recycled water is energy intensive and a high-cost  
46 solution. That is why we are concerned that the customers  
47 of the public utility are providing some sort of

1 cross-subsidisation for that service which, as Hunter  
2 mentioned earlier, is something that the public utility  
3 cannot do, except in very sort of set circumstances of  
4 avoided costs. We just want to set up the same sort of  
5 playing field for both public incumbents and new entrants.  
6

7 As one more point of clarification about the REC in  
8 the UK, we feel that there is a different market structure  
9 here. We want to put on the record that while, in  
10 principle, we would prefer an as-efficient minus to be  
11 taken into account, we do feel that there are not any sort  
12 of legal problems with the REC approach being adopted by  
13 the tribunal  
14

15 THE CHAIRMAN: Thank you, Heidi. Jim?  
16

17 MR BENTLEY: I have one quick comment along those lines on  
18 the recycled water situation. Here we are talking about  
19 encouraging competition and encouraging integrated water  
20 management. It is not necessarily the case that one leads  
21 to the other or one requires the other. I think there are  
22 often cases where localised versus centralised solutions  
23 can be a good thing, but I don't think it is a situation  
24 where you click your fingers and localised is good or  
25 centralised is bad, or indeed the other way round.  
26

27 When trying to understand the benefits from  
28 recycling wastewater, one has to take into account a whole  
29 range of factors. It is not as simple as an overall global  
30 statement that local is good and central is bad, or indeed  
31 the other way around.  
32

33 THE CHAIRMAN: Thank you, Jim. Any other comments?  
34 Scott?  
35

36 MR TAYLOR: I have one question and I would like to  
37 comment on Heidi's comment. We probably agree that you  
38 cannot have one size fits all, but I do not think it is  
39 fair to refer to trying to have a level playing field.  
40

41 For example, Sydney Water and Hunter Water have  
42 postage stamp pricing which allows them to cross-subsidise  
43 areas that have high cost reflective pricing and low cost  
44 reflective pricing. Where a multi-utility is seeking to do  
45 the same, the regulations put in silos bulk water,  
46 wastewater, recycled water and then energy, and so forth.  
47 Those benefits which you enjoy are not afforded to us.

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I think it is misleading to say that you are trying for a level playing field because a level playing field does not exist, and we will bring that up on the implementation side of things as well.

As a new entrant trying to aggregate our services together to provide a customer with a single bill, there is a convergence of different commodities within the water market and other commodities as well. If you take the built environment, for example, of Barangaroo when you talk about energy costs, Barangaroo is a six-star rated community that is both water positive and six-star rated as well. It allows us to take benefits from recycled water to use in cooling, which provides a much more economical lower footprint in term of carbon and energy usage as well as contributing more positively collectively.

The current problem with the water pricing regime is that pulls it all out and says here is what it is in singularity. That is completely different. I agree with Jim's comment that you have to be selective in terms of what is a decentralised resource productivity versus a centralised consumption base, because there are very different. There is a danger in trying to have one size fits all. Normalising it to an academic level where size-specific schemes just do not work is not a perfect outcome, and that is the challenge we have.

But it is important to note that I don't think we are trying to level the playing field because it is not level. This is about regulating monopolistic services. We want good outcomes as well as being recognised as wholesale customers. We are customers but often we don't get treated as customers in the process.

THE CHAIRMAN: Thank you very much, Scott. Heidi, on your comment about - I think I have this right - the recycled water plant waste disposal, I think you said that, to you, that is on-selling.

MS MURAS: We still view that there is an on-selling service being provided.

THE CHAIRMAN: One of the reasons why we have treated that differently than, say, on-selling water and on-selling sewerage is that we think that there is a degree of

1 transformation there, whereas the other ones are just, in a  
2 sense, straight on-selling. We tried to distinguish  
3 between the wholesale services as to ones that are just  
4 straight selling a product and the others where there is  
5 some transformation through the plants operated by the  
6 wholesale customers. Would you comment on that?  
7

8 MS MURAS: I would actually like to ask a question about  
9 that because it is one of the things that --

10  
11 THE CHAIRMAN: Yes, go ahead.  
12

13 MS MURAS: When you say that the service is being  
14 transformed and there is a service that is being provided  
15 that is substantially the same, are you saying that the  
16 service that is being transformed is the additional water  
17 service that is provided by recycled water or the  
18 wastewater service is being transformed that is being sold  
19 to the end-use customer?  
20

21 MR WILLETT: Heidi, I guess it is because of the fact that  
22 the waste that comes out of a recycling plant is very  
23 different in nature and quantity than what would go into  
24 the sewerage system if it was just a reselling of sewerage  
25 services. So the quantity of material per customer is very  
26 substantially different after it has been through the  
27 recycling process and the water taken out of it.  
28

29 MS MURAS: When we look at our own recycled water scheme  
30 in greenfield areas, having a recycled water plant as an  
31 additional service reduces potable consumption by about  
32 one-third. That is in Rouse Hill, which is our oldest  
33 recycled water scheme and the largest residential scheme in  
34 Australia where there are quite large gardens and uses for  
35 the recycled water plant.  
36

37 In more modern greenfields residential recycled water  
38 schemes, it reduces potable consumption by about 25 per  
39 cent. I note that, in IPART's report, they assumed in  
40 their scenarios that there would be a much larger reduction  
41 than that. We are yet to see that because we have not had  
42 the experience with our infill schemes and our wholesale  
43 customers to date to see how much those types of schemes  
44 will actually discharge.  
45

46 I would be happy to hear comments from others here  
47 today, but when we look at our own greenfields schemes,

1 which you would assume would have a high-end sort of  
2 ability to use that recycled water because there are only  
3 certain uses that it can be used for, we do not see the  
4 same scale of reduction.

5  
6 MR WILLETT: So you are using the reduction in potable  
7 water consumption as relatively small or as a proxy for --

8  
9 MS MURAS: As a proxy to try and establish how much. It  
10 comes back to that capacity issue. It is not just when the  
11 plant is offline. We are thinking that we will have, say,  
12 two-thirds of the capacity that would be needed, anyway.  
13 Of course, we are still receiving the effluent because the  
14 recycled water treatment process is about treating the  
15 liquid component of the waste to be reused so it is fit for  
16 purpose. If there is a connection to the public utility -  
17 I completely note and agree that if there is not a  
18 connection, say, in a greenfield scheme, the WICA licensee  
19 is definitely providing the end-to-end service - and we are  
20 still receiving the effluent or the solids, we are  
21 definitely getting the same amount from end-use customers  
22 there, or maybe we are not, but we just do not have the  
23 data so say what the reduction would be and we are really  
24 interested to hear the views of other people around the  
25 table.

26  
27 THE CHAIRMAN: Simon?

28  
29 MR ORME: I think that was my reaction as well, that there  
30 be a bit more clarity around the distinction - it is easy  
31 to say but whether it works in practice I am not so sure -  
32 between an on-selling service and then the transformation  
33 service. Bear in mind also that it could vary, so there is  
34 also an issue around a system-wide approach to pricing  
35 given that might well vary. The question is, I guess:  
36 does the current pricing proposal in total sort of  
37 incentivise the right sort of mix there? I am wondering  
38 whether that has been specifically teased out. Am I making  
39 myself clear?

40  
41 I am referring to the distinction between a  
42 transformation service and a mere on-selling service.  
43 I think the point that Flow wants to make is that they see  
44 themselves not as an on-seller but as a manufacturer and  
45 harvester of water.

46  
47 We understand the reasons for the decision, that there

1 is this kind of high distinction between on-selling and  
2 then the wholesale, but when you get into an example, does  
3 that really work, given the likely variety? You were just  
4 saying in Rouse Hill that it is quite low; whereas, we have  
5 been looking at numbers that appear to be quite higher in  
6 some cases.

7  
8 MS MCLEAN: Yes, 60 to 70 per cent.

9  
10 MR ORME: You would hope that the pricing scheme would  
11 pick that up, whereby if you had a scheme that was actually  
12 producing a lot more water, because of all those external  
13 benefits we were mentioning, there would be some sort of  
14 reward, or relative to another scheme that was perhaps just  
15 really much more like an on-selling service.

16  
17 MR WILLET: One way of looking at that would be to only  
18 have the non-residential price for the waste product from  
19 the recycling plant available if there was a minimum  
20 quantity of material taken out of that through the  
21 recycling process.

22  
23 I think Heidi's point is that, contrary to our  
24 reflection in the draft report, Sydney Water's experience  
25 is that there is not that much material taken out of the  
26 waste product in the recycling process so there is not a  
27 big difference between what is put into the sewerage system  
28 regardless of whether it is a reselling of waste product or  
29 waste services or the end product of the recycling process  
30 coming out of and going into the sewerage system. That is  
31 a material question, I think.

32  
33 THE CHAIRMAN: On your question, Simon, which Ed has been  
34 addressing, we have said that recycled water waste disposal  
35 is a transformation, therefore it would be under the  
36 non-residential pricing regime. With the point that you  
37 guys have been discussing, there could be some where there  
38 is a lot taken out and others where there is very little  
39 taken out.

40  
41 The thing is that because we allow for scheme-specific  
42 pricing arrangements, if you had a situation where either  
43 the wholesale customer or Sydney Water or Hunter Water felt  
44 that the non-residential price was not appropriate, they  
45 would be able to call for a scheme-specific review. IPART  
46 could then investigate and maybe adjust the price and the  
47 amount that was coming out of the system. That is one way

1 we have tried to wrestle with that.

2  
3 MR HILL: From our perspective, we look at integrated  
4 water cycle management and Jim was talking about that.  
5 Maybe Sydney Water's example is that they are indifferent  
6 to whether they sell a kilolitre of recycled water or a  
7 kilolitre of potable water. In actual fact, they make  
8 10 per cent more from selling potable water, so they may  
9 not be as driven to encourage the consumption of recycled  
10 water as we would be where we are looking at the potable  
11 water that is consumed. We are then treating it and we are  
12 trying to encourage people to use recycled water because we  
13 get the benefit of revenue from the recycled water and the  
14 benefit from having less sewage discharged into a Sydney  
15 Water sewer, if we are connected, or in instances where we  
16 are not connected, then that just means we have to pay for  
17 fewer trucks.

18  
19 One of the challenges that we see is the fact that we  
20 want to see that the right incentives are there to provide  
21 the right consumption behaviour for customers. Maybe that  
22 is what Sydney Water wants to see because of the  
23 ring-fencing between their two businesses and maybe the  
24 degree of indifference. Certainly we would be promoting  
25 and actively encouraging - providing prizes, prizes, prizes  
26 and cash, cash, cash - customers to use as much recycled  
27 water as they can because we have the right incentive  
28 there. We would like to see a transition to more  
29 innovative pricing considerations so that the scarce and  
30 valuable water resource is optimised through that  
31 difference between prices and that is potable water prices,  
32 recycled water prices, wastewater prices.

33  
34 THE CHAIRMAN: That's the price that you charge to your  
35 customers; is that what you are referring to now?

36  
37 MR HILL: Well, ultimately we would like to be in that  
38 environment. At the moment, if we look at this, it is  
39 highly likely to be a situation where Sydney Water is the  
40 default potable water supplier and we become the wastewater  
41 and the recycled water supplier. That is certainly what we  
42 are thinking. That is kind of an inefficient outcome  
43 because I cannot imagine Sydney Water making massive  
44 margins from just having recycled water charges from a  
45 particular customer.

46  
47 How do we work better together? How do we have prices

1 that actually incentivise Sydney Water to come to us to  
2 say, "Do you know what - we actually really want you.  
3 Believe it or not, I am on a price cap at the moment, so  
4 I make lots of money from selling lots of potable water",  
5 but in the future we would love to have Sydney Water come  
6 up to us and say, "Do you know what - we want to work with  
7 you and get people to consume more much recycled water so  
8 we can supply less potable water as that is a better  
9 outcome for us."

10

11 THE CHAIRMAN: Thank you, Frazer. Scott?

12

13 MR TAYLOR: With the prices we pass on to our customers -  
14 this is only talking about our side; Flow and others may  
15 have a different approach - we certainly pursue  
16 transparency with the customer. All our customers actually  
17 shadow what the regulated prices are. This is an important  
18 point - the Sydney Water and Hunter Water price  
19 determination is actually pricing the private market as  
20 well because our customers enjoy whatever the regulated  
21 prices are.

22

23 THE CHAIRMAN: That may well be true in practice, but  
24 actually my understanding is that your prices are not  
25 regulated. You can charge your customers what you like,  
26 more or less.

27

28 MR HILL: Yes, that is fine in practice. If we only have  
29 recycled water, it is a pretty blunt tool because if we  
30 increase our recycled water prices, then it does not really  
31 work for anyone. In theory, it is correct, but --

32

33 THE CHAIRMAN: We are hearing what you are saying and we  
34 are hearing about the broader review and everything like  
35 that. The tribunal, in coming up with these draft  
36 decisions and draft determination, has tried to keep as  
37 much flexibility as possible. For example, Frazer, if you  
38 guys want to do a deal with Sydney Water, you can opt out.  
39 That is one of the things in the determination. You can  
40 opt out. You can also --

41

42 MR TAYLOR: Sorry, Peter, it is 11.55. Can I ask that we  
43 defer it to the discussion on implementation because  
44 I think this is a very important issue?

45

46 THE CHAIRMAN: Indeed, let us do that, that's good.  
47 Sorry, Kevin?



1  
2 MR YOUNG: The comment was made that there is a great  
3 incentive for Sydney Water to say that we just want to sell  
4 potable water and not recycled water. I want to put on the  
5 table that that is not true. We are after the best  
6 outcome.

7  
8 One of the issues we face at the moment is that we are  
9 regulated on those streams - recycled water and wastewater  
10 individual costs. What is true is that there is a  
11 transparency with all our costs. Even though we run some  
12 of the biggest recycled businesses, IPART reviews what the  
13 price should be of recycled water for those costs and the  
14 customers respond to that by deciding how much they will  
15 use in those developments.

16  
17 It is a different matter if you had it onsite and you  
18 were determining how you would use that - what's a good  
19 example? Sometimes council come to us and say, "If you put  
20 a recycled water scheme in, there will be major savings  
21 over the cost of potable." We have a conversation with  
22 them and say, "But you don't spray that much potable water  
23 on your sporting fields compared with what you are going to  
24 use of recycled water." Then they say, "Yes, but potable  
25 water is expensive and we only spray it every so often, but  
26 if we put a recycled water scheme in, we would be spraying  
27 it all the time." I think there is a broader issue about  
28 pricing on different streams - water, wastewater, recycled  
29 water - but it would be unfair to say that Sydney Water has  
30 anything that says we are just keen to sell potable water.  
31 That is not true. We are after the best outcome for the  
32 community.

33  
34 THE CHAIRMAN: Good, thanks, Kevin. Any last question  
35 before we break, or comments? No? Let us break and resume  
36 at 12.15. Thank you.

37  
38 SHORT ADJOURNMENT

39  
40 SESSION 2 - Draft decisions implementation of wholesale prices

41  
42  
43 THE CHAIRMAN: Thank you very much, let us resume, and  
44 Anita will give a brief introduction to session 2 draft  
45 decisions on the implementation of wholesale prices.

46  
47 MS PAYNE: Thank you, Peter. I have a few slides that

1 summarise our implementation decisions. As I mentioned  
2 this morning, we decided to set system-wide prices for  
3 specific services for new wholesale schemes. We have  
4 decided to allow wholesale customers and wholesale service  
5 providers to opt out of our determinations and opt into  
6 unregulated pricing agreements where both parties agree,  
7 and we have decided to consider a request to undertake  
8 scheme-specific price reviews and determinations. These  
9 are the key decisions on implementations that we have made.

10  
11 The next slide [slide 32] talks about our draft decision on the  
12 determination length. As I mentioned, we put out two  
13 determinations, one for Sydney Water and one for Hunter  
14 Water - they are two separate documents. Our decision is  
15 that determination will apply from 1 March 2017 to 30 June  
16 2021. This means the determination would commence soon  
17 after the final determinations are published and would  
18 finish a year after the current retail price determinations  
19 for Hunter Water and Sydney Water.

20  
21 This slide [slide 33] just outlines a bit more detail on our  
22 decision around applying the system-wide prices to new  
23 schemes only. One of the issues that we consulted on in  
24 our discussion paper, and the stakeholders responded to in  
25 their submissions to our discussion paper, was the issue of  
26 existing schemes and any transitional arrangements or how  
27 we factor in the impacts of our decisions on those existing  
28 schemes.

29  
30 In order to address these, we decided to apply the  
31 system-wide prices - they are the prices in the draft  
32 determinations that we released earlier this month - only  
33 to new schemes. Those system-wide prices do not apply to  
34 existing services for existing schemes. The main reason  
35 for that is these arrangements have been privately  
36 negotiated by the parties. If the current arrangements are  
37 unsatisfactory to either party, they can seek a  
38 scheme-specific price review and determination.

39  
40 In terms of the detail of what is considered an  
41 existing service - so therefore would be exempt - we  
42 have outlined in the draft report and the draft  
43 determinations that this is defined as being where Sydney  
44 Water or Hunter Water has commenced supplying a wholesale  
45 service to a customer and that the price levied for that  
46 service under an agreement with the customer is different  
47 to the price set out in our draft determination. This

1 decision really gives a flexibility to both parties to  
2 existing agreements to decide on a better course of action.  
3

4 This slide [slide 34] sets out our decisions on the process  
5 that we would follow in undertaking a scheme-specific price  
6 review. What we said in the draft report is that a  
7 wholesale service provider or a wholesale customer could  
8 request that IPART undertake a price review. IPART could  
9 also initiate a review. We have followed a similar process  
10 to what we did for our retail price review.  
11

12 The first step for a scheme-specific review  
13 would be for the wholesale customer or the provider to  
14 write to us to request a review, and we would consider that  
15 request and decide whether to undertake the review. One of  
16 the issues we would look at when considering that request  
17 is the extent to which the existing determined prices apply  
18 or do not apply before making a decision on whether we  
19 undertake a review.  
20

21 The second step would be for IPART to request that the  
22 wholesale service provider - so that is Hunter Water or  
23 Sydney Water - prepare a pricing proposal. Our expectation  
24 is that this pricing proposal would be informed by  
25 consultation with the wholesale customer. We would also  
26 advertise the price review in the relevant newspaper. This  
27 is similar to our retail price review process where Hunter  
28 Water and Sydney Water submit a providing proposal to  
29 IPART.  
30

31 The third step is that we will prepare a summary of  
32 the pricing proposal, form a preliminary view and publish  
33 the proposal, our views and invite stakeholders to make  
34 written submissions, including wholesale customers. We  
35 would also hold public hearings, like this one, to discuss  
36 the proposal and the stakeholder submissions. Again this  
37 looks very similar to our retail price reviews in terms of  
38 process.  
39

40 The fourth step is that we would consider comments  
41 from stakeholders to make draft pricing decisions and  
42 release a draft report and determination for stakeholder  
43 comment. Finally, we would consider the submissions  
44 received on the draft report and the draft determination  
45 and release the final report and determination.  
46

47 The key issues around scheme-specific reviews - as

1 I mentioned, our expectation would be that the wholesale  
2 service provider and the wholesale customer have consulted  
3 and that the pricing proposal from Hunter Water or Sydney  
4 Water would reflect meaningful consultation. That would be  
5 helpful in identifying the scale and nature of the issues  
6 that are agreed and those issues that are not agreed.

7  
8 We also considered and decided not to set interim  
9 prices if we were going to undertake a scheme-specific  
10 review. For new schemes, as I mentioned, system-wide  
11 prices would apply, so those would be the prices that would  
12 apply. We are also not proposing to set an interim price  
13 in the case of existing schemes.

14  
15 A linked issue with the interim price is a true-up  
16 mechanism. This would come into play if we were going to  
17 be setting an interim price to true-up the difference  
18 between the interim price we set initially and the final  
19 price that we decided. As we have decided not set interim  
20 prices, we have decided not to apply a true-up mechanism.

21  
22 In terms of the approach that we would take and the  
23 methodologies that we would apply in undertaking this  
24 review, we would be guided by the principles and prices  
25 that we have used in this system-wide determination when  
26 conducting scheme-specific reviews but it would be open to  
27 stakeholders - wholesale service providers and wholesale  
28 customers - to put their views forward in terms of the  
29 issues that are being reviewed as part of that  
30 scheme-specific review.

31  
32 In terms of the length of the scheme-specific  
33 determinations, again this is something that we would  
34 consider and we would take into account stakeholders' views  
35 and our ability to set potentially a longer determination  
36 period based on confidence in the forecasts. We would also  
37 recognise the need for flexibility in terms of getting the  
38 appropriate incentives for each party right, providing  
39 certainty to the parties and also financial stability.

40  
41 We have also decided to apply a similar approach to  
42 what we did in our retail price reviews for large  
43 non-residential customers. For our retail price reviews that we  
44 concluded earlier this year for Hunter Water and Sydney  
45 Water, we provided the option for large non-  
46 residential customers and for Hunter Water and Sydney Water  
47 to opt out of determined prices, to essentially reach an

1 agreement. We have decided to apply this approach for the  
2 wholesale price review as well. This requires mutual  
3 agreement, so both parties must agree to opt out of the  
4 determination.

5  
6 Current agreements - those are the agreements that are  
7 in place now for existing schemes - are essentially  
8 considered unregulated agreements.

9  
10 Any change in revenue must be ring-fenced by Sydney  
11 Water and Hunter Water. This is something that we talked  
12 about in the retail price review reports in terms of making  
13 clear that any changes in revenue need to be clearly  
14 ring-fenced.

15  
16 Essentially, this slide [slide 38] summarises our key decisions  
17 on the implementation issue. There is the determination  
18 period, as I mentioned; the application of the system-wide  
19 determination to new schemes only; our process for  
20 undertaking scheme-specific reviews; and our decision to  
21 allow wholesale service providers and wholesale customers  
22 to enter into unregulated pricing agreements.

23  
24 Turning to the questions for discussion, we would like  
25 your views on our draft decision on those decisions I have  
26 just outlined:

27  
28 The coverage and duration of the draft determination -  
29 that is, the length of the determination period and its  
30 application to new schemes only;

31 The process that was outlined for scheme-specific  
32 reviews and determinations;

33 Our decisions in relation to interim prices and  
34 true-up mechanisms; and

35 Our decisions in relation to unregulated pricing  
36 agreements.

37  
38 THE CHAIRMAN: Thank you very much, Anita.

39  
40 Scott, would you like to start?

41  
42 MR TAYLOR: Thank you, Peter. From our perspective, it  
43 would be interesting to understand in New South Wales how  
44 many unregulated agreements exist and their terms and  
45 conditions. Our experience in working with the utilities  
46 is that, in practice, they are willing to work on bilateral  
47 agreements. However, when we get to the detail or the

1 process, they are quick to protect their regulated asset  
2 base. We do not see there is a practical incentive in real  
3 terms for the utilities to have unregulated agreements.  
4

5 In fact, going through the process of negotiation we  
6 are frequently frustrated that we have go into a safe  
7 harbour where the last resort is "Okay, we will get IPART  
8 to deal with this determination." In real terms, in  
9 practice, there are no unregulated agreements in existence  
10 at the moment and we do not see how this determination  
11 would facilitate an increased number of those moving  
12 forward.  
13

14 MR HILL: As I mentioned a few times, integrated pricing  
15 is very important. A disconnect between these prices and  
16 the retail prices is something that we do not support.  
17 Ultimately, we would like to see all the prices put  
18 together in one system-wide consideration so that we are  
19 not looking at each of the silos and we get the best  
20 possible outcome.  
21

22 I think scheme-specific reviews are where the  
23 innovation is. The facilitation costs are barriers in what  
24 we are able to do. As Steve said, unfortunately the prices  
25 don't really incentivise us to think of ways of getting  
26 less reticulation. Ultimately, it is how we can work  
27 better and provide better efficiencies associated with  
28 those facilitation costs.  
29

30 In my mind, I would see that scheme-specific reviews  
31 would be the norm rather than the exemption, which means  
32 we will be very good friends by the end of the process.  
33 The challenge there is the length of time, obviously -  
34 12 months - and the fact that they are publicly available.  
35 I know there is not really much you can do about that, but  
36 we are competitive businesses - Lendlease is itself in the  
37 communities that is developing. Going through that  
38 process, we need to consider how we might do that. The  
39 worst case scenario is that the length of time and the fact  
40 that they are not confidential might mean we just opt out  
41 because the system-wide prices don't work and, in actual  
42 fact, the value we can add to the facilitation costs.  
43

44 It is ironic that the regulator is saying, "You guys  
45 can enter into unregulated pricing agreements", and you  
46 guys are all going, "Well, we don't really want to because  
47 we like the regulatory protections we have." It is kind of

1 sad that I have to say this, but could IPART please provide  
2 more direction to them about the risks associated with  
3 entering into unregulated pricing agreements so they can  
4 have greater certainty about understanding the relative  
5 risks and whether they stay under the protection of a  
6 regulated umbrella or whether they decide step out of that.  
7 Our experience is that they are just paranoid about being  
8 shown that they may have made the wrong decision. In a  
9 regulated environment they get much, much better protection  
10 from that environment. You guys are welcome to obviously  
11 have a go at me on that.  
12

13 MS FRANCIS: Thanks.

14  
15 THE CHAIRMAN: Thanks, Frazer. I am sure they would. Do  
16 you want make a quick response before I ask Steve and Flow  
17 Systems?  
18

19 MS MURAS: For Sydney Water, our in-principle view is that  
20 it probably is unlikely that the unregulated agreement  
21 option would be used. It was the same sort of response  
22 that we had in the retail price determination. We think  
23 that the lack of incentives is actually on both sides. Why  
24 would either party choose to opt out of a regulated price  
25 that would, for one of the parties, mean that they would be  
26 paying more or receiving less? I think that lack of  
27 incentives is certainly a two-way street.  
28

29 THE CHAIRMAN: Thanks, Heidi. Hunter, a quick comment.  
30

31 MS CUSHING: Similarly in terms of Hunter Water's  
32 position, I probably would refute the fear of an  
33 unregulated environment. However, being a state government  
34 utility, there are obviously certain probity and commercial  
35 things and a lot of regulation that we do have to abide by.  
36 To a large extent there are parameters within which we  
37 operate. As you have mentioned, virtually everything we do  
38 is publicly available, so there is not much commercially  
39 sensitive type information that we are allowed to withhold  
40 or keep close to our chests.  
41

42 To some extent, perhaps the reluctance that you would  
43 have seen from us, potentially or perceived, is more around  
44 the fact that we are set, in most instances, to be held to  
45 a higher standard than a lot of other commercial entities  
46 based on the nature of our owner and also for the role that  
47 we play in providing a service to our community and

1 customers.

2

3 THE CHAIRMAN: Thank you, Fiona. Steve, from Flow?

4

5 MR HALL: I agree with Heidi that it is unlikely that we  
6 will enter into unregulated pricing agreements - I totally  
7 agree. As Kevin said earlier, both sides already feel like  
8 they are aggrieved about where the minus calculations are  
9 at, so the chances of us actually negotiating something  
10 that we are both happy with are fairly slim.

11

12 I am also a bit concerned about the process for  
13 scheme-specific reviews. Whilst in theory it makes the  
14 most sense, in practice I cannot see how it would be  
15 workable for us to compete in an environment where we do  
16 not have that certainty of what the costs will be. I guess  
17 we would have to rely on the retail-minus tariff as a  
18 fallback. We just do not have the luxury of the time that  
19 it takes to do that scheme-specific review. Part of me  
20 also just hates the idea of consultants cleaning up in  
21 making money out of doing these reviews and again both  
22 parties will probably still not be happy with the outcome.

23

24 I think it is great that we have that flexibility in  
25 theory, but in practice I really struggle to see how we  
26 could put those into action.

27

28 MR HILL: Scheme-specific reviews and the conversation  
29 around the facilitation costs and where values lies relies  
30 upon us having pretty good awareness of Sydney Water's and  
31 Hunter Water's long-term growth plans. When they are  
32 approached to respond, and Sydney Water says they will have  
33 a think about it and Hunter Water says they will think  
34 about what their long-term growth plans will be, there is  
35 an element of information missing there. We encourage  
36 greater transparency around their long-term plans.

37

38 Much of what we are doing does not fit into a  
39 five-year plan or regulatory review process. I know there  
40 would be a level of accuracy and blue-sky thinking in some  
41 of the longer term plans beyond the next five years.

42

43 Bingara is a good example. The first house was there  
44 in 2009. We will get to 1,800 homes there in probably  
45 2019. There is a 10-year period there and the ability to  
46 understand what Sydney Water's plans or Hunter Water's  
47 plans are around that need to be pretty clear so we can



1 talk about facilitation costs. If it is just a five-year  
2 focus on what their costs are with some longer term  
3 projections that justify those, that will make it hard for  
4 us to have a really good meaningful conversation around  
5 facilitation costs.

6  
7 THE CHAIRMAN: Yes, Matt?

8  
9 MR EDGERTON: I have a question following on from what you  
10 are saying, Frazer. You mentioned facilitation costs is  
11 where the value-add is, which is effectively an argument  
12 for scheme-specific reviews. In terms of facilitation cost  
13 savings, you have talked before about the savings  
14 associated with a recycled water plant. You have also  
15 talked about your concerns with retail-minus. Under our  
16 draft determination, to the extent your recycled water plan  
17 is operating and all waste is going through your recycled  
18 water plant, retail-minus is not relevant. You are subject  
19 to the non-residential price. The more you are using the  
20 plant, the greater, potentially, facilitation cost savings,  
21 but also the less relevant retail-minus is.

22  
23 I wanted to confirm to what extent is the waste going  
24 through your plant? Is the majority of the waste going  
25 through your plant for the majority of the time? In that  
26 instance retail-minus is not relevant; it is  
27 non-residential prices.

28  
29 MR HILL: That is a good point. You have seen our  
30 schemes, I think. With Bingara Gorge, we are practically  
31 not a customer of Sydney Water so it is effectively a  
32 stand-alone scheme. We do have a small connection to  
33 potable water, or it will be ultimately when it is  
34 operating because, of course, it is not operating at the  
35 moment. Actually, we are in a partnership with some of  
36 Sydney Water's customers and we treat their waste there.  
37 That is a really good example of where two businesses work  
38 together.

39  
40 We built a recycled water plant there that deals with  
41 the volume of wastewater produced rather than the volume of  
42 recycled water that they are likely to consume. So we have  
43 a water balance challenge ahead where we need to encourage  
44 as much use of recycled water as we possibly can, both in  
45 people's homes, in people's backyards, and on the nice golf  
46 course that you should all get out and play - it is a very  
47 good golf course and it needs to be nice and green.

1 Ultimately we would be discharging into the environmental  
2 or worst case scenario.

3  
4 In that particular example, we have built a scheme  
5 that really is about taking wastewater and turning it into  
6 something that we could dispose of one way or another. If  
7 we were just building a recycled water plant to produce  
8 recycled water for consumption, it would be about one-third  
9 the size of that. We need to make sure there are the right  
10 incentives between the choice as to how big a recycled  
11 water scheme ought be built and to what extent is the most  
12 efficient outcome on a long-term basis - equal parts  
13 recycled water scheme and use of Hunter Water's and Sydney  
14 Water's sewerage infrastructure. It means we provide that  
15 recycled water alternative and reduce the demands on  
16 potable water but still have an element of sewage being  
17 discharged.

18  
19 Most of our schemes will have that element, and we  
20 getting more and more; as Steve was saying, we are getting  
21 more and more, but we don't have the benefit of 1.3 million  
22 or 4 million customers - we have 500 customers - and just  
23 absorbing that. Every scheme we build, we need to be there  
24 and operating for the first customer.

25  
26 Whilst it has been said, and it is quite correct, your  
27 modelling identifies what the schemes look like when they  
28 are fully built out, there are 10 years there where they  
29 will not be fully built out and where we will have a range  
30 of different permutations and combinations around the  
31 services we get from Sydney Water, whilst we will build a  
32 scheme, ultimately, we never may be on retail-minus.  
33 I don't know whether that answers your question. You are  
34 looking at me like I said something wrong.

35  
36 THE CHAIRMAN: Thanks, Frazer. Yes, Jim?

37  
38 MR BENTLEY: Just a quick comment on the transparency  
39 around water information. I fully agree with that. One of  
40 the things we are wrestling with in Hunter Water is, on the  
41 one hand, we don't want to accept just what the current  
42 graphs tell us about when the source augmentation is  
43 required. We want to be bold enough to say that we think  
44 we can do something about that. "We" is not just Hunter  
45 Water, it is people like yourselves, it is communities and  
46 whatever. We have to work at being more open with all of  
47 that information.

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Frankly, if we can come up with a way in which everyone would benefit by source augmentation being put back by a certain number of years, we would be delighted. It is not about us getting the revenue from that, but it is genuinely about achieving the best outcome.

On the other hand, then there will be the sort of under the currents system, as it were, the forces that play on you when you are trying to do the right thing but you actually have to balance all of those factors. I want to give you some encouragement that that is genuinely the world we want to move towards. I don't mind who ends up paying who for the water, particularly the recycled water. I want to make sure we have the right system solution and we will all have a part to play in that. I am not sure whether I said I don't mind who, but anyway you take my point about the system being more important than the individual player in it. I think we have the luxury of being able to take that position because our incentives are different from yours, but that is genuinely where we are trying to come from.

THE CHAIRMAN: Thank you very much, Jim. Kevin? No?

MR YOUNG: No, thank you.

THE CHAIRMAN: Danielle?

MS FRANCIS: I wish to outline briefly our position on those four things. In terms of the duration of the draft determination, we don't have a major concern with that. We would not want it to be longer. I understand that different parties have different needs, but with the infancy of some of these things, there is so little data available. However, we would be a little concerned if it was much longer than that.

That is probably the same comment that I would make with regard to scheme-specific reviews and so on. We support the process and think it sound generally good and note that it will be interesting for whoever is the first entity that requests a scheme-specific review because I am sure we will all go through a great learning process in finding out what happens, but the process overall sounds good.

1           We do not have any major concern with the no interim  
2 prices and no true-up mechanism. In terms of unregulated  
3 pricing agreements, to echo what has been said by others  
4 I think there is genuinely a theoretical openness to that.  
5 It is just really hard to find areas where there is genuine  
6 agreement.

7  
8       THE CHAIRMAN: Thank you very much, Danielle.

9  
10       MS MURAS: Could I respond to a couple of questions and  
11 comments?

12  
13       THE CHAIRMAN: Yes, thank you, Heidi.

14  
15       MS MURAS: Thank you. I understand the point about the  
16 information with regard to long-term growth plans. I want  
17 to put on the record that Sydney Water does publish its  
18 growth servicing plan that has - let me double-check for  
19 accuracy - the short, medium and long-term plans in line  
20 with Department of Planning forecasts.

21  
22       MS FRANCIS: I would add another comment to that, which is  
23 to say that there is potentially a bit of uncertainty on  
24 both sides, and that is something we have noticed over  
25 recent years. Where previously all new growth effectively  
26 defaulted to Sydney Water, there are now different players  
27 out there, so we can never assume these days that it is  
28 guaranteed that we will be a service provider either.  
29 There is a bit more uncertainty as a result of the market  
30 environment perhaps.

31  
32       MS MURAS: We have a question for IPART about the  
33 scheme-specific reviews. We note that in the draft report  
34 there is reference made to using the pricing approaches for  
35 different services as the starting point. That is one of  
36 the things we were hoping to tease out a bit today because  
37 when you take the non-residential price for recycled water  
38 waste disposal, using the assumptions in the draft report  
39 that is effectively an 85 to 90 per cent reduction in some  
40 cases on the retail costs, whereas if you take the  
41 retail-minus REC approach, it is more like a 25 per cent  
42 reduction.

43  
44           If there are circumstances where either party feels  
45 that that reduction is perhaps too much because the nature  
46 of service is not being transformed to the extent it was  
47 assumed it would, is there an ability to use a different

1 pricing approach in a scheme-specific review?

2

3 THE CHAIRMAN: Yes, I don't see why not. My understanding  
4 was that we would sort of kick off with current approach so where  
5 it is on-selling, it would be retail-minus, and where it is the  
6 transformation, it would be non-residential retail prices  
7 I guess as the starting point. However, if both parties  
8 come along and propose a different approach, then we would  
9 look at that as part of the scheme-specific review.

10

11 MS MURAS: Thank you for clarifying that.

12

13 THE CHAIRMAN: Thank you, Heidi. Is there anything else  
14 around the table? Do any people in the audience have  
15 questions or comments?

16

17 MS RACHEL WATSON (Institute for Sustainable Futures): I  
18 am curious about what Heidi said, namely, that there could  
19 be an 85 per cent difference in the price between  
20 residential and non-residential for the same amount of  
21 water and wastewater. Do you know why there is that  
22 difference?

23

24 MS MURAS: We have done a modelling of the assumptions  
25 used in IPART's report, and that is partly to do with the  
26 discharge factor being set at 35 per cent. Even if you do  
27 put the discharge factor at a higher percentage, which we  
28 have done, but as there are not those additional users for  
29 recycled water as in large-scale irrigation, we find it  
30 difficult to see where you would get that sort of 70 per  
31 cent potable reduction. But even at a higher discharge  
32 factor, there is still quite a large difference in the  
33 price. That is due, I think, to the difference in  
34 residential and non-residential prices that we talked about  
35 before. Even setting the discharge factor at 60 per cent,  
36 it is still up to an 80 per cent reduction based on the  
37 retail price.

38

39 THE CHAIRMAN: Thanks, Heidi. If I understand your  
40 question, Rachel, this stems from the setting of the retail  
41 prices, which we set earlier this year, where we set a different  
42 price for residential and non-residential. There is a  
43 reason why we do that, which I am happy to get somebody to  
44 outline.

45

46 MS WATSON: I was wondering why it was so large. Like,  
47 they are exactly the same --

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THE CHAIRMAN: Just a second there. Matt?

MR EDGERTON: Part of the explanation is because, on the retail side of things, we set residential prices on a per dwelling basis. All units and all stand-alone houses pay the same service charges and for non-residential premises, non-residential customers, we set it on a meter basis. If you are a large office building, the customers in that building pay a service charge which is based on their share of the overall meter charge, the overall meter cost; whereas if it was a residential building, the charges are set per dwelling. That can open up some price differences between the residential customers and non-residential customers.

MR WILLETT: The other point that is important, and Heidi touched on this, but just to unpack it, is that the discharge factor assumes a certain amount of sewerage from a retail customer based on their water consumption. It assumes that 70 per cent, for example, of their water consumption is sewerage. That is regardless of how much actual sewerage there is.

If you have your prices based on a retail starting point, then they would be set at a proportion of water consumption regardless of how much water was taken out during the recycling process. Once you take that into account, there is the potential at least for there to be a very big difference between a wholesale non-residential sewerage charge and a sewerage charge based on the retail cost.

MS WATSON: I understand all that, but it still doesn't explain why. What drives that massive difference regardless of the flow? If you take the two customers using exactly the same amount of water and they are discharging exactly the same amount of wastewater, like you have in your report, there is at least a 50 per cent difference in total. There must be some reason. There must be some underlying costs that are added into one price and not the other.

THE CHAIRMAN: For example, if you have a 100-unit building, which is 100 apartments with residential, then the assumption is that each of those units would put a different demand on the water and sewerage system than a

1 building with 100 small offices. An obvious one would be  
2 the discharge factor; one would expect that a residence  
3 would discharge a greater percentage of the water they use  
4 than an office.

5  
6 Then you get to another point where you have a factory  
7 which is a large operation, where the discharge, depending  
8 on the nature of the business, is obviously pretty low.  
9 The question there is that you have one set of charges  
10 which applies to residential and one which applies to  
11 non-residential. For non-residential, the guide that we  
12 use as to the capacity that the business puts on the system  
13 is the size of the meter. For the residents, it is per  
14 unit, and this was to bring apartments into line with  
15 houses.

16  
17 An example that was often used is to say you have two  
18 houses in one street. One is knocked down and they put up  
19 a four-unit or six-unit apartment building on it. You  
20 could have the situation where they would just be paying  
21 the same water bill, depending on usage. It was thought  
22 that the six-unit building would put a greater call on the  
23 system, both water and sewerage, and it would be different  
24 than the house.

25  
26 That is the reason why you have the different pricing  
27 approach and then you have different factors which end up  
28 driving a difference between the two. I think it's right  
29 that the difference in Sydney between the residential and  
30 non-residential is greater than the difference in Hunter

31  
32 MS WATSON: The number in your report was still about  
33 30 per cent for Hunter; is that right? It is still in the  
34 range of 30 per cent?

35  
36 MS CUSHING: Yes.

37  
38 THE CHAIRMAN: Yes. Is there anything else? Any other  
39 questions or comments? Simon, and then Matt.

40  
41 SESSION THREE - Other questions and comments

42  
43 MR ORME: Just as an overall observation, in terms of the  
44 potential to go and do a bilateral or separate regime, the  
45 constraint here is really around the package of tools that  
46 IPART has at its disposal, given the kinds of constraints  
47 you have mentioned. You have the postage stamp pricing.

1 That, as you know, is a big constraint. We will probably  
2 write something about how great a constraint that is.

3  
4 The other thing in terms of the future is that you  
5 mentioned that you were looking at the future demand and  
6 what augmentation might be required, but is there, I guess,  
7 a competitive process to test the different potential  
8 augmentation options and compare a local water recycling  
9 option versus some other option? These are all the sorts  
10 of things that have been struggled with in other industries  
11 such as energy.

12  
13 The other factor, of course, is just the problem that  
14 to the extent that the new entrants can come in and are  
15 more efficient, there is the potential of, of course,  
16 stranding some of the existing assets or the existing  
17 contracts that the incumbent suppliers have. When you  
18 bring all that together, is there a set of drivers for  
19 people to want to go down into these scheme-specific  
20 solutions? I would question that, similar to some of the  
21 other comments made here. Is there any opportunity, as  
22 part of the broader picture, to create some drivers, for  
23 example, some sort of process where different augmentation  
24 schemes are evaluated side-by-side such as a statement of  
25 opportunities - you have that in the energy sector around  
26 generation and, of course, with networks you have that in  
27 the case of regulatory investment tests - so there is some  
28 sort of competitive process?

29  
30 That would then create a driver for the existing  
31 suppliers to come and say, "Well, yes, we have identified  
32 that your solution is a lower cost solution and it is one  
33 of our alternatives, so let's have a commercial negotiation  
34 about whether you can supply us at a lower cost than  
35 whatever other alternative there is." I am sorry, I am  
36 just acknowledging the constraints that you are under and  
37 just --

38  
39 THE CHAIRMAN: No, that is a good point. My response to  
40 that would be that within the constraints we are under,  
41 such as postage stamp pricing. The Lower Hunter Water  
42 plan and the Sydney Metropolitan Water Plan, these are  
43 plans which are put together by government, by the  
44 Department of Planning. So given --

45  
46 MS MURAS: Sorry, Peter, DPI Water is responsible for  
47 putting together those plans. Sorry, to interrupt.



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THE CHAIRMAN: That's right, I said government, but you were more specific. Simon, it just seems to me that, given those constraints, this is an opportunity to do this.

You made a point about augmentation, which Jim also made, and that is a good point. If a wholesale customer or WICA licensee had a good idea about augmentation in the Hunter, then I don't see why that customer or WICA licensee couldn't approach Hunter Water and say, "We want to do this and we want to buy this from you in order to do it." Then you could have a situation where you would say, "Obviously the system-wide price in IPART's determination is not relevant. We will then put a proposal to IPART to adjudicate on it." There is that opportunity within the constraints.

The issue about a broader review, we have dealt with that. If the government wants to have one, they will commission us to do it. At the moment, I think there is the scope to do that and that is the advantage of having the unregulated pricing mechanism.

We hear the points about in practice and transparent process and it takes a year and stuff like that. One reason we set out those steps was to try to give some certainty so it would not be something that dragged on forever. IPART would be held to account to complete the analysis and the work and determinations within the time period.

In answer to your question, I think there is the capacity to do that. Again somebody has to have the idea. One side or other has to have the idea and approach the other side and then say, "Right, this is what we want to do. IPART's determination system-wide pricing is not relevant. We will go to IPART with a proposal and get them to make a scheme determination."

Matt?

MR EDGERTON: Given some concerns or questions about unregulated pricing agreements, I wanted to ask people around the table what does that mean for their views on the coverage of our draft determination? Should our system-wide prices just apply to new schemes only or should it be broadened to also apply to existing schemes?

1  
2 MS MURAS: I'm happy to go first. Our in-principle  
3 response to IPART's draft decision on that is we are happy  
4 to accept that it apply to new schemes only  
5  
6 THE CHAIRMAN: Thanks, Heidi. Hunter?  
7  
8 MS CUSHING: We have a similar view to Sydney Water.  
9  
10 THE CHAIRMAN: Thank you, Fiona. Steve?  
11  
12 MR HALL: Yes, we are happy with that as well. Don't fix  
13 what isn't broken.  
14  
15 THE CHAIRMAN: Sorry?  
16  
17 MR HALL: Don't fix what is not broken.  
18  
19 THE CHAIRMAN: Lendlease?  
20  
21 MR HILL: No, we are happy with it as well. We support  
22 it. What people have asked for now with the  
23 grandfathering, that has been acknowledged. I have one  
24 question, if I may?  
25  
26 THE CHAIRMAN: Yes.  
27  
28 MR HILL: We have been talking about scheme-specific  
29 reviews and there is an element of discretion on behalf of  
30 the tribunal as to whether to choose to accept it or not.  
31 Anita mentioned one of the things would be considering the  
32 extent to which the current system of IPART has applied.  
33 Can you provide some guidance under which you would  
34 consider whether to accept the scheme-specific process or  
35 not?  
36  
37 THE CHAIRMAN: It would be up to the tribunal's judgment  
38 and we can't bind a future tribunal. We put that in there  
39 because you could get a situation where a relatively  
40 straightforward scheme was being proposed, which we thought  
41 the scheme-wide determination would fit pretty neatly,  
42 there was no real reason to divert, and yet one party sort  
43 of insists on calling IPART in. We would want to make a  
44 judgment about whether that is a good use of the  
45 regulator's time, so it is really is a failsafe.  
46  
47 In answer to your question, at least from my point of

1 view, we would take very seriously any proposal and we  
2 would look at it and unless it is something that, in a  
3 sense, should have just been done through the  
4 determination, we will do it.  
5  
6 MS McLEAN: Could I ask a quick question?  
7  
8 THE CHAIRMAN: Yes, Lisa.  
9  
10 MS McLEAN: Regarding the grandfathering, does that apply  
11 to draft agreements or current agreements or what is the  
12 definition?  
13  
14 MR STRATE: The definition to look at is "existing  
15 service" in the determination. I think it refers to that  
16 in 1.3 of schedule 5. I could be wrong.  
17  
18 THE CHAIRMAN: We had quite a discussion on this, Lisa,  
19 and it is in the determination.  
20  
21 MS McLEAN: Thank you.  
22  
23 MR STRATE: It refers to the service - that Sydney Water  
24 and Hunter Water commence supplying the service. That is  
25 really the trigger point. It commences with the supply of  
26 the service.  
27  
28 MS McLEAN: Thank you.  
29  
30 THE CHAIRMAN: Of course we welcome submissions on this in  
31 any event. Yes, Scott?  
32  
33 MR TAYLOR: I am conscious of the time. The question,  
34 I think, both sides have identified their issues today, so  
35 there are two sides of the story. I think in the  
36 determination, both groups have identified their concerns.  
37  
38 In terms of procedural fairness, I note that  
39 submissions are due in December and the determination will  
40 apply from 1 March. I ask the tribunal to consider, given  
41 there is no merits review, that if what is in your final  
42 determination is a material departure from the draft  
43 determination, all parties will have the opportunity to  
44 address that.  
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46 THE CHAIRMAN: We will take that on board, Scott. Yes,  
47 Kurt?

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MR DAHL: This is a confirmation question. I don't know if this is right topic, but we are going to run out of time. I am thinking about a scheme that is in the urban environment where, on a daily basis, the amount that is bypassed from the recycled water plant will vary. I can understand the logic in here that says that, depending on that particular day, the charge will vary, when you are swinging from a retail-minus charge on that particular day to a non-residential charge on the next day, depending on how much is bypassed.

The first thing is practically how do you work out how much is bypassed, because often it is gravity flow that is bypassed to the sewer. I am not sure how anyone will be able to police that. The second thing is the wastewater charge is supposed to be based on the potable meter size. Which potable meter is it? If this recycled water plant is just providing a sewerage service, the only potable water meter might be the one that is connected to the recycled water plant for top-up. Whereas the assumption that is in here at the moment seems to be that it is a potable water meter that goes into the development and there could be a disconnect between the provision of potable water and the provision of recycled water/sewerage service.

I would encourage IPART to answer this question, if you can, but also to put in a worked example in the determination not a hybrid.

THE CHAIRMAN: The devil is in the detail and I will get Matt to give an answer now.

MR EDGERTON: Kurt, they are both very good questions and they are questions we are considering between now and the final report.

In terms of the question - which meter would it be - that is not addressed in our draft determination, but at least the secretariat's preliminary thinking is that it would be all water meters servicing the site on the basis that water meter multiplied by discharge factor is the best indicator of wastewater volume. That is something we are thinking through.

On the second question about how you measure proportion bypass versus proportion through the recycled

1 water plant, again that is something that we are working on  
2 between now and the final report.

3  
4 There are two things: first of all, if you have any  
5 views about how that should be measured, we are all ears.  
6 Secondly, there is a fundamental question, though, in terms  
7 of how proscriptive we may or may not want to make the  
8 determination. There is obviously a risk with being too  
9 proscriptive as well.

10  
11 MR DAHL: Just having fought a battle on another  
12 determination that IPART put out that was a bit vague, the  
13 more specific you can be, even if it is worked examples and  
14 things like that, it takes out that vagary that we all  
15 wrestle with as to what does this word mean and what is the  
16 context of that?

17  
18 When we have approached IPART in the past for such  
19 clarifications, there has been reluctance to provide that.  
20 It's more, "You make your own assessment of what this means  
21 and if there is a dispute, then you can come to us." We  
22 would rather the determination be clearer in the first  
23 instance and not to get at this point where we are trying  
24 to dot the Is and cross the Ts and still be trying to work  
25 out some of these things which, if they are wrong, you are  
26 talking about hundreds of thousands or millions of dollars  
27 one way or the other.

28  
29 THE CHAIRMAN: Thanks for that, Kurt. Just wrapping up,  
30 Simon?

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32 MR ORME: Just a brief comment. That is the one of the  
33 issues that we have identified where potentially there is  
34 still a margin squeeze. One of the drivers of why there  
35 might still be a margin squeeze, even though the intention  
36 is not to have that, is around how that detailed modelling  
37 is worked out because depending on how it is done, you can  
38 get to a different answer. Again, I would encourage a  
39 greater detail of specificity. I think we will be trying  
40 to suggest how that might be done, but that is a really  
41 crucial issue that we have identified so far.

42  
43 THE CHAIRMAN: Thank you. Is there anything else? Any  
44 wrap-up comments? Jim?

45  
46 MR BENTLEY: On the thing about water planning and so on,  
47 we were having that conversation as though we looked at all

1 these as individual cases that we should have perhaps a  
2 competitive process for looking at this solution or that  
3 solution. Undoubtedly whatever we do will be a basket of  
4 solutions. So we should think that we do look at all of  
5 these as integrated things and we will have to look at  
6 multiple criteria in processing solutions. They will not  
7 just be simple economic evaluations. I am sure everyone  
8 gets that, but having said what I said before, I wanted to  
9 just balance that out.

10

11 THE CHAIRMAN: Thank you, Jim. We are passed the time  
12 now, so we will wrap up.

13

14 CLOSING REMARKS

15

16 THE CHAIRMAN: We will consider what has been said today  
17 when we make our final decisions on the maximum prices that  
18 Sydney Water and Hunter Water can charge for their  
19 wholesale water and sewerage services.

20

21 As previously mentioned, we are accepting submissions  
22 from stakeholders on our draft report until 7 December  
23 2016. A final report and determination is due to be  
24 released in February 2017.

25

26 This brings to a close today's hearing. Thank you  
27 very much for coming and participating. I think it has  
28 been a really useful hearing. Have a good afternoon.

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30 AT 1.10PM, THE HEARING WAS ADJOURNED ACCORDINGLY

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