

Independent Pricing and Regulatory Tribunal
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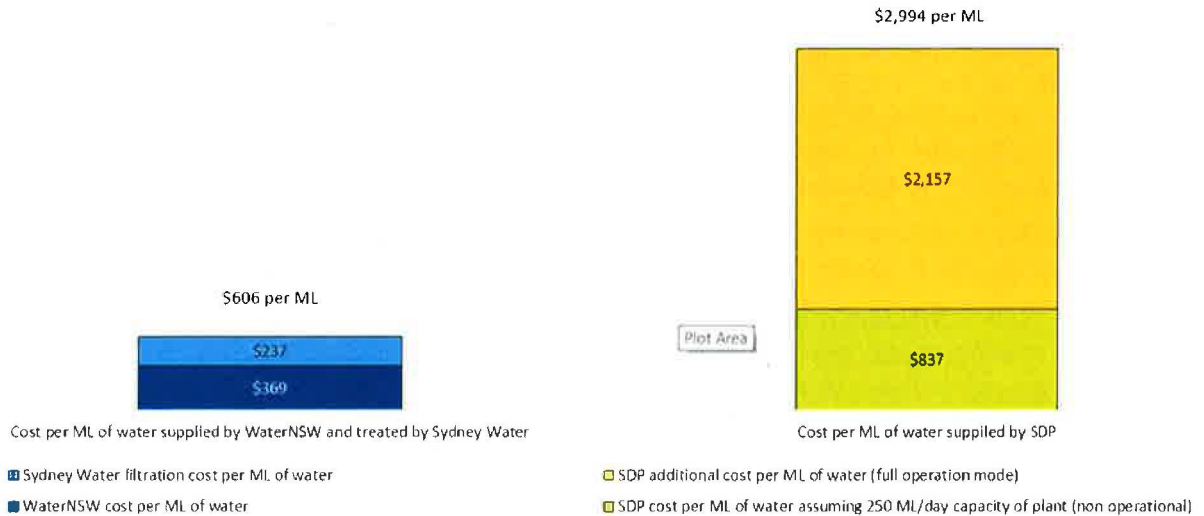
Sydney Desalination Plant Price Review 2017

WaterNSW is pleased to provide the Independent Pricing and Regulatory Tribunal (IPART) with a submission in response to IPART’s “Review of prices for Sydney Desalination Plant Pty Ltd From 1 July 2017 Issues Paper” (“Issues Paper”).

WaterNSW is the supplier of bulk raw water to Sydney Water and other distributors within the Greater Sydney drinking water catchment. WaterNSW owns and maintains water storages, dams, pipelines and related supply infrastructure. WaterNSW also operates and manages the supply system and protects the Greater Sydney drinking water catchment.

The Metropolitan Water Plan (MWP) documents the NSW Government’s policy for water demand and supply for Greater Sydney. Under the MWP and its current Operating Licence, Sydney Desalination Plant Pty Ltd (SDP) is a drought security measure, not a water supply measure. This is because of the incredibly high cost of water generated by SDP as illustrated in the chart below¹.

Comparison of cost per ML of water supplied 16/17



Accordingly, under the MWP and its current Operating Licence, SDP is only required to become activated once the cumulative amount in WaterNSW’s storages for Greater Sydney fall below 70%. Also under the MWP and its current Operating Licence, SDP is required to shut down once WaterNSW storages reach 80%. WaterNSW’s and SDP’s operations are interrelated.

¹ The chart compares the cost of filtered water supplied by SDP with the cost of raw water supplied by WaterNSW and filtered by Sydney Water. The water supplied by SDP is five times more expensive than the water supplied by WaterNSW/Sydney Water.

In its Issues Paper, IPART has suggested changes to the structure of SDP's pricing. This includes:

- enabling SDP to sell drinking water upon request when dam levels are high by removing the nil price for any water supplied when dam levels are high; and
- for the base charge to be shared between bulk water customers based on their respective share of total water system demand (that is, the amount of water the customer takes from WaterNSW and from SDP). This would shift a higher proportion of the costs of SDP onto Sydney Water and its end user customers while any additional customer of SDP, would pay proportionately less.

If there is a move for SDP to become a more broadly available supply source, this would be a fundamental shift in the market. This shift would have two significant implications. The first is the likely adverse cost to customers. The second is that the market is not set up to efficiently dispatch water from two significant supply sources in an economically efficient way. The market does not have the institutional and regulatory framework in place to support an efficient outcome.

These suggestions by IPART have been made at a time when:

- SDP is inoperable due to the tornado and is likely to be inoperable for the first few years of the 2017-2022 determination period while repairs are undertaken; and
- due to the current high levels of storage in our Sydney dams, approximately 95%, SDP notes in its "*SDP Regulatory proposal to IPART, Review of prices for Sydney Desalination Plant Pty Ltd From 1 July 2017*" (SDP Proposal), page 49 that the most likely scenario is that the SDP will remain in water security mode for the majority of the 2017-22 regulatory period.

While putting forward these proposals in its Issues Paper, IPART notes that Sydney Water is likely to continue for the foreseeable future to be SDP's only customer (page 35). The prices of water from SDP, due to its costs, are of a magnitude greater than the prices of water derived from WaterNSW to make them commercially unattractive for any conceivable purchaser.

WaterNSW queries whether the IPART pricing process is the correct forum to construct policy for the water sector through changes to the tariff structure. As outlined in our submission to IPART's "*Review of the WaterNSW Operating Licence Issue Paper*", we noted that the water market regulatory regime is in need of further, continued reform and called for the establishment of a separate review to examine these issues.

This call for further reform is mirrored by SDP in its response to IPART's suggestion on sharing the base charge between bulk water customers (page 123 of the SDP Proposal):

"SDP considers that further analysis and consultation is required to develop approaches to sharing costs between multiple customers which provide sufficient flexibility to facilitate growth in the bulk water market. SDP would be happy to participate constructively with IPART, SWC and other potential customers in progressing this issue. This might best occur within the context of a broader review of the evolving water market in NSW."

IPART itself has noted the need for a broader review of the water market in NSW in its "*Prices for wholesale water and sewerage services, Sydney Water Corporation, Hunter Water Corporation - Draft Report*" (Draft Wholesale Report) where it acknowledges that some issues may warrant further consideration in future wholesale price reviews or in a future broader review, and that policy settings may change in the future (page 1). At page 25 of the Draft Wholesale Report, IPART notes that a number of stakeholders called for a broader review of the water industry.

We support and reiterate these calls for a broader public review.

These are issues of significance for Greater Sydney and its community. They require the oversight of the NSW Government and input and consultation of a large number of stakeholders including the need for alignment with the WMP and its planning processes.

Yours sincerely



David Harris
Chief Executive Officer

