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 Matthew Edgerton,
Mr Jean-Marc Kutschukian, Mr Scott Chapman,
Mr Matthew Mansell, Mr Justin Robinson,
and Ms Jessica Boddington

SMC Conference and Function Centre,
66 Goulburn Street, Sydney NSW

Tuesday, 10 November 2015, at 11.30am
OPENING REMARKS

THE CHAIRMAN: Good morning and welcome to this public hearing. I would like to begin by acknowledging that we are meeting on the Gadigal land of the Eora people and wish to pay my respect to the traditional owners both past and present.

We are conducting a review to determine the maximum prices that Sydney Water can charge its customers for its water, wastewater, stormwater and other services from 1 July 2016.

My name is Peter Boxall and I am the Chair of the Independent Pricing and Regulatory Tribunal, IPART. I am joined today by my fellow tribunal members, Catherine Jones and Ed Willett.

I would like to thank everyone that has provided a written submission to our issues paper which was released in September.

Our issues paper set out the key issues that will be considered as part of this review. It summarised Sydney Water’s pricing proposal which was submitted to IPART on 30 June 2015 and set out our preliminary views on some of the pricing issues.

Sydney Water’s pricing proposal, our issues paper and submissions to our issues paper are available to the public on our website.

This public hearing is an important part of our consultation process for this review. In addition to the views expressed in written submissions, we will consider the views you provide today in making our decisions on Sydney Water’s prices.

Following this public hearing. We will release a draft determination and report for public comment in March 2016. Stakeholders will have about four weeks to make further written submissions before we make our final decisions on Sydney Water’s prices. A final report and determination will be released in June 2016, which will set the maximum prices from 1 July 2016.

Broadly, our price review is seeking to determine:

1. What are Sydney Water’s efficient costs of providing its water, wastewater, stormwater and other services; and
2. How should these costs be recovered through prices?

Today we will hold four sessions. The first session before lunch will focus on Sydney Water’s proposed bills and cost drivers. The next session following lunch will focus on Sydney Water’s proposed changes to the form of regulation, including its proposals for an efficiency benefit sharing scheme and greater price flexibilities through a weighted average price cap.

The two remaining sessions will cover issues related to Sydney Water proposed prices for water, wastewater, stormwater and other services including the proposed late payment fee and Rouse Hill land charge.

As part of this review we will also decide whether we should determine charges for Sydney Water’s wholesale water and wastewater services to licensed retail suppliers of water and/or wastewater services under the Water Industry Competition Act 2006.

With new water and wastewater businesses entering the market, this issue is becoming increasingly important. We will hold a dedicated public hearing on wholesale water and wastewater pricing on Tuesday, 8 December 2015 in Sydney. It will be held in the afternoon from 1.30 to 4.30pm. A copy of the agenda and details of the workshop will be made available closer to the date of the hearing. If you are interested in this issue, I encourage you to attend this public hearing.

Before we commence proceedings today I would like to say a few words about the process for this hearing. After Sydney Water’s introduction, we will launch into the sessions I just outlined. A member of the IPART secretariat will give a brief presentation introducing each topic. As a general rule, I will then invite participants at the table to provide comment on that topic, following discussion by those at the table, I will then invite comments from those in the general audience.

Today’s hearing will be recorded by our transcriber; therefore, to assist the transcriber, I ask that on each
occasion you please identify yourself and, where applicable, your organisation before speaking.

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

Assisting the tribunal today with members of IPART’s secretariat, Hugo Harmsdorf, who is IPART’s chief executive officer, Matthew Edgerton and Jean-Marc Kutschukian. They will be joined by Scott Chapman, Matthew Mansell, Justin Robinson and Jessica Boddington to facilitate each of the sessions.

We commence today with Sydney Water making a short presentation on its pricing proposal. Over to Sydney Water.

SYDNEY WATER PRESENTATION

MR YOUNG: Thanks, Mr Chairman. Could I also pass on my respects to the traditional owners of the land, the Gadigal people of the Eora nation, and pay my respects to elders past and present.

Thank you very much for the invitation for Sydney Water to be here today. I think I have been involved in pricing submissions since IPART first started, so I have been involved in a number of them and --

THE CHAIRMAN: They get better.

MR YOUNG: They get better. I was going to say that from the beginning we were very supportive of the process, because it is very transparent and open, stakeholders can raise issues. It means that the water industry has got better over time and I think the regulation has got better over time so it is a process that we really support.

When I did the media on putting out our price submission, there was some media coverage about this being an outcome. I was very clear to say that what Sydney Water is putting forward is a proposal. It is a proposal that goes through the IPART process and we have transparent discussions and as part of the proposal, we not only cover prices but raise issues about regulations as well.

I should say that I am very proud of the proposal that we put forward. This is the first time that I have ever been involved in a proposal where we recommend real price reductions for customers. I am not saying that has not occurred before, but it is generally after the price path has been finished with the IPART recommendations. This is the first time as a part of an agency that we are recommending that upfront.

We want to reduce customers' bills, but in particular we want to maintain high levels of service to the community. So it is not reducing bills at any cost and we see maintained or increased levels of service as important.

We see our future as really engaging with customers. If we had a crystal ball for the future, we would want to see customers driving Sydney Water in the decisions we make and the services that we provide. We look to work with IPART to look at some elements where we can modernise regulation and we think that is an interesting debate we should have.

Looking at the last four years, we are transforming Sydney Water into a more customer-centric world-class utility. We want to benchmark and if there is any part of our business where external providers or the private sector can do better, we want to learn from that, and that has been our process in the last four years.

I always make the point that for every dollar we spend, about 83 cents in every dollar is external to the business. We have seen that change over a longer period towards having more partnerships with the private sector and the externals as well.

The essence of our price submission is that we are offering around $100 real reduction over four years and it is driven by two key factors. The first factor, which I have spoken about, is we have really chased efficiency since the last price submission and we have outperformed against the targets set by IPART. That has not been easy.

We have made some tough decisions in the business.

We outsourced our electrical and mechanical. We challenged our internal civil workforce to meet and beat the market and they have done fantastically well with an 18 per cent reduction in the costs of performing business to equal to some of the best practice performers in...
Australia. We have really centralised procurement to drive that harder and to drive the price sector and we have challenged ourselves. Essentially we challenged ourselves because the money that we are spending is customers' money.

We are also at a time where we are seeing interest rates at an all-time record low. With those two elements of the savings that we have made and our future savings plus interest rates being at all time low, we think it is time to pass those savings on to customers.

The details are in our submission, but, in essence, for residential customers in the typical household, we are saying they will save in real terms about $105 or about 8.6 per cent on their bills and for customers in residential flats, the savings will be about $86 or 7.9 per cent.

It is not just the residential customers who will get a benefit from the proposals. For non-residential customers, we are saying about 43 per cent of non-residential customers will receive a 10 per cent real bill saving; around 50 per cent will receive a 15 to 17 per cent real bill saving; and the remaining 17 per cent of non-residential customers will see a 35 to 39 per cent real bill saving. But all of that will depend on IPART's decision on how we best move forward with water prices.

We are in a fortunate position but our proposal is not just about lower bills. We want to do more engagement with customers for them to be at the heart of the decisions that we make. We have done more in our price path proposal about engaging with customers and one example would be the price for water. We are seeing from our feedback from customers that customers want more power over their bills and they are supporting a higher usage price rather than a lower usage price. I think that will be a discussion that we can have here today.

We also think stability is important and that is why we support the higher usage price, particularly at a time period where people talk about us going into the Godzilla high occurred before we announced that we were proposing a reduction in customers' bills.

We welcome the discussion today, thank you.

THE CHAIRMAN: Thank you very much, Kevin. That's very good. Now I will just call on Scott Chapman from the secretariat to introduce the first session, bills and cost drivers.

MR SUMMERHAYES: Chair, is there an opportunity to talk about the introduction?

THE CHAIRMAN: Yes, but what I was planning to do was have Scott do a short introduction and then open it up to around the table and then the floor.
On operating expenditure, Sydney Water has significantly outperformed what we allowed for in setting prices in 2012. Essentially their actual operating expenditure has been lower than what we forecast would be the efficient cost of delivering its services over that time. Now, there was a particular step-down in operating costs in 2013-14. From that period onwards those savings have been largely maintained and are forecast to be maintained over the coming four-year period.

Operating expenditure over the current four years - that is between 2012 and 2016 - is forecast to be about $235 million below the figures we used to set prices in 2012 or what we forecast would be efficient. So Sydney Water has obtained further efficiencies than what we deemed would be reasonable to achieve over that period.

This is largely based on a significant change in operating expenditure in 2013-14 when Sydney Water undertook a series of reforms. There were big savings in energy procurement and energy costs, labour and improved contracting and purchase of materials and Sydney Water forecasts that these savings will be carried forward through to 2020. However, operating costs are forecast to remain relatively flat over the next four years without any further significant step-down in costs.

In capital expenditure again Sydney Water has spent less than what we allowed for when setting prices in 2012, particularly in 2012-13 and 2013-14, as the chart shows. Going forward, Sydney Water again has forecast slightly higher capital expenditure than what it spent over the previous four years.

In terms of total capital expenditure, Sydney Water has spent about $250 million less than what we forecast over the current four-year period from 2012 to 2016. It forecasts capital costs from 2016 to 2020 to be about $2.8 billion which is around $200 million more than what it will have spent between 2012 and 2016.

Their forecast expenditure includes: 64 per cent of it will be on essentially renewing existing assets; 25 per cent will be on servicing growth areas and servicing growth; $160 million will be on mandatory standards, including environmental performance, and another $150 million on other expenditure.
This program includes $328 million on a couple of IT projects - the Enterprise Resource Planning suite of IT and also a new billing system.

Other stakeholder submissions to Sydney Water’s proposal discussed ensuring that capital expenditure is sufficient to meet all environmental obligations; that IPART consider allocating capital expenditure across the whole of business rather than by sub-product - water, wastewater or stormwater - which encourage integrated planning; and to ensure that sufficient funding is available to support liveable cities.

Some of the discussion points that we will step into are:

Is Sydney Water’s proposed expenditure efficient and prudent?

Why can’t the operating expenditure savings achieved between 2012-2016 be improved upon significantly?

Is the proposed level of capital expenditure for environmental obligations appropriate?

How does Sydney Water’s proposed IT platform drive efficiency and how will customers realise the benefits from those?

How does Sydney Water support long-term objectives of liveable cities?

Thank you, and I’ll hand back to the Chairman.

THE CHAIRMAN: Thank you very much, Scott. We will open up for discussions around the table. Who would like to go first? Stephen.

MR SUMMERHAYES: Good morning. Stephen Summerhayes is my name. I am from the Cooks River Alliance. We are a regional organisation of councils uniting eight Sydney riverside councils. I appear with Ms Sarah Holland-Clift. She is my equal from the Parramatta River Catchment Group, but we speak together also for the Sydney Coastal Councils Group and the Georges River Combined Councils Committee, and Svetlana Kotevska is here in the audience today.

Collectively we cover 35 metropolitan local governments and we sought input from them in relation to our submission of 1 October which we spoke to.

10/11/2015 10 SYDNEY WATER
Transcript produced by DTI
MR SUMMERHAYES: Indeed, and pricing is a wonderful opportunity to deliver liveability outcomes. I was wondering what weight you place on your statutory objectives in the Act and how that guides the development of the pricing proposal in achieving those objectives.

MR YOUNG: I think it is a key link. At the end of the day we have to decide what is the remit; IPART has to say against our obligations as set by the government and regulation and obligation, what do they think is the prudent and efficient expenditure. I think we need that community debate about what is the role ahead, what is the framework and how do we get behind it? Then IPART can follow on from that and decide because they are making a question about community money and value and that is the debate we should have.

MR SUMMERHAYES: So liveability as the vision, where does liveability appear within your proposal as a concept?

MR YOUNG: That is a fair question actually. You will see our proposal is about our regulatory requirement through IPART to look at the prices that are set by IPART for water, wastewater and our regulatory requirement for stormwater. You will see Sydney Water separately being involved in a number of community events and holding a robust discussion on the need for us to work collaboratively about creating liveable cities.

We are certainly part of the agenda, but our focus today and our submission goes to the heart of IPART’s regulatory requirements to set sufficient pricing. I don’t see those as in conflict. We are happy to have the discussion about how that could change for the future but we do have statutory obligations to really focus on how IPART sets prices for us in different product streams.

MR SUMMERHAYES: Is part of your customer engagement focus --

THE CHAIRMAN: Maybe this will be the final question for this time. There will be plenty of opportunities. The other people around the table need a chance. In general it’s five minutes for each intervention.

MR SUMMERHAYES: No, I can stop there.
ever seen it in my career - to say, "How can we get the
best outcomes for the community and achieve the best
value?" That has led to a commitment or a new regulation
which takes into account just not the frequency of
overflows but it takes into account aesthetics, health and
the environment.

I have to say I am really proud of that work that we
have done. At the moment, it is not finalised because we
have put a submission to the EPA, I think in December, and
it will be decided next year. In terms of the price
submission, we have put in place the state of play as we
see it at the present time given all the community
consultation and all of our negotiations with the EPA and
we think that is the best way to go forward at the moment.

We understand there could be some variations of that
and that is a bit of a risk that we take in the submission
but we believe from an IPART viewpoint that what we are
putting forward, given the community engagement and our
discussions with the EPA, is prudent and efficient and it
is value for the community. So that's what we stand for at
the present time.

THE CHAIRMAN: Thanks, Kevin. Leigh, would you like to
to say something?

MR MARTIN: Leigh Martin from the Total Environment
Centre. Yes, I would like to say something very briefly
because probably most of the things I wanted to discuss
today are more appropriate for the afternoon sessions, but
it is our very strong view that the prices for Sydney
Water's water, wastewater and stormwater services should
reflect environmental costs of delivering those services.
We certainly believe that they need to be sufficient to
ensure that Sydney Water continues to meet its
environmental obligations.

I am also of the view that the suggestion that water,
wastewater and stormwater services be considered together
is appropriate. I think it must be viewed as an integrated
system and considering prices in that light would be,
I think, a positive thing.

THE CHAIRMAN: Thank you, Leigh. Kristal?

MS BURRY: Kristal Burry, from the Public Interest
Advocacy Centre. I think at this stage, we have some broad
support for lowering the bills. Anything that reduces the
cost and reduces pressure on the community is something we
support. We did raise some questions in terms of the
sustainability of that reduction. Obviously some of the
major contributors to that are the low interest rate
conditions that are happening at the moment. We just
mention that is something that we would like to see
more information about how any change in that may then be
reflected back towards the customers.

As for those questions, are those questions that you
came up with or are they questions that were raised in
those submissions and you are reflecting those?

MR KUTSCHUKIAN: They were the main themes that were
raised in the written submissions.

MS BURRY: In terms of efficiency and prudence, that is a
very broad concept that not all community members might
know. That is a very economic term but community members
may have different opinions about what "efficiency" means.
Perhaps something that might be reflected in these types of
submissions may be better descriptions or definitions and
that kind of thing to enable community members to be able
to really understand what it is that we are talking about.

THE CHAIRMAN: Thank you, Kristal. Cynthia?

MS MITCHELL: Cynthia Mitchell from the Institute for
Sustainable Futures at UTS. The institute is a
self-funding research organisation. We have worked with
Sydney Water over a very long period of time and with
utilities across Australia and internationally.
Personally, I am a member of the Independent Water Advisory
Panel that oversees the Hunter and Sydney Water planning
processes.

Kevin, thank you, and, Peter, thank you for the
opportunity to be here. I would like to return to this
issue of liveability. I know that Sydney Water is committed
to the principles of liveability. Sydney Water was
significant in the Water Services Association of
Australia's work last year to develop liveability
guidelines.

We have a situation here in Sydney now where the
community engagement through the Metropolitan Water Directorate under the metropolitan water planning process demonstrates that the people of Sydney want more liveability as part of the outcomes. We have willingness to pay. There are studies from Marsden Jacob - perhaps the best known economists in the water sector - that demonstrate that the people of Sydney are willing to pay for liveability outcomes. We are in a situation where utilities are facing expanding expectations. Originally it was really a public health focus, then it became an environmental focus and we have now reached a situation where environmental legislation is included in the definition of what is prudent and efficient. 

I guess the question is what will it take for us to get to a position where liveability is included in what we think a utility is being asked to do by the community and therefore should be charged within that concept of prudence and efficiency? They are difficult because they come from really quite different world views.

We have a lot of evidence that says that that is what the community wants. Yet in the pricing submission - and I understand the constraints that you are operating under - what you are asked to do is to consider three separate streams. I note that recycled water is not amongst those streams, but there are three separate streams. How do we move forward on this question of integration and how does Sydney Water move to a position where pricing for liveability is just part of doing good business?

THE CHAIRMAN: Kevin?

MR YOUNG: That's a good question. If I get out my business card - this is on the back of every card - it says, "Sydney Water's focus - enhancing liveable cities." It is a badge that shows we want to be involved in that debate. It is a question about the community engagement and we know it is a question of cost but of value. Warren Buffett always say that price is what you pay and value is what you get, and that is a classical discussion.

It is a really broader conversation than a utility responsibility. I think it is about the development of new areas and the value capture that occurs from developers that are going from rural to a residential community and how much of the liveable city should be captured by a local user pay theory; how much should be spread across a broader community in what we are doing; how much should be paid for across the entire Sydney customer base? I think that's a broader conversation that we should have.

Maybe I should not mention this, but where do developers charges come in that? There used to be a signal that was coming in where we could say that for this local area there was more investment in infrastructure and assets and that was a value capture, which we had a mechanism to say. It should not be 100 per cent, but there should be a proportion of the costs paid for by the people who are getting the benefits.

This is not answering your question but I am raising issues like you are. I think that is the discussion that we should have with people like your organisation, the Cooks River Alliance, with Parramatta, Sydney Water, IPART the developers, the government and the Greater Sydney Commission about how do we deliver this opportunity.

MS MITCHELL: Perhaps just one quick follow-up question or comment. Thank you for the response and I agree that different mechanisms of value capture will be part of how we have to move forward. There are two comments. One: if not through the pricing submission, then where and how? The second thing would be to say that this is not just about new development areas.

MR YOUNG: No, I agree.

MS MITCHELL: New development areas have a particular set of opportunities but work that we have done, and others have done similar work, shows that, for example, in Campbelltown on a hot day there is a 15 degree Centigrade difference - 15, one five - between areas that are treed and areas that are not. We know that in Melbourne during the last period of shocking bushfires, more people died in Melbourne on account of heat stress than were killed in the bushfires. Nearly 300 people died from heat stress in Melbourne. Water in the landscape as a means of cooling our urban areas is one of the responses to that. So there are known risks, as part of which the response would be shifts in our water service practices that seem a bit fundamental that need to have a voice.

MR YOUNG: It is interesting because when you talk about
going back, in the original discussion on utilities they
provide a water pipe to a house. They provide a wastewater
pipe and they provide some trunk drainage. More and more
we see the future as being water as part of a community.
It is water as part of parks that kids like to play in. It
is water as part of treescapes. It is water as part of
lagoons, stormwaters. Cycleways will benefit. They are
places of living. So that is that broader conversation for
the future.

THE CHAIRMAN: Thanks, Kevin. Richard?

MR McMANUS: Richard McManus from StormWater NSW.
We represent councils and the stormwater industry within
Sydney and across greater New South Walse. I want to echo
Cynthia's points as well. I completely understand that
this is a forum for discussing prices and it is also a
response to the operating licence that Sydney Water
actually has, but there is a broader discussion here about
how we incorporate liveability. Also Sydney Water being
the lifestream of Sydney, how does Sydney Water have its
corporate vision of saying, 'We are the lifestream of
Sydney', but the way it actually separates and potentially
the response within the pricing - I'm not saying it is, but
potentially the response within the pricing - is to meet
just the base level operating licence of how we can actually
do that? Yet the vision is that Sydney Water can actually
be something fantastic.

Whether this is something for IPART as well to
take on, the decision around pricing and what
Sydney Water actually puts forward needs to be considered
in a broader context.

Kevin, you mentioned that there is a whole range of
other things like liveable cities and future development
within Sydney as well, but how do these organisations
actually get together and then how is that reflected within
the Sydney Water pricing submission and IPART'S decision
on that pricing as well rather than simply saying, "We will
actually meet bare minimum operating licences as well?" We
think there are broader issues which need to be taken into
consideration to meet Sydney Water's vision for the future.

THE CHAIRMAN: Thank you Richard. DPI Water, Cathy?

MS COLE: Cathy Cole, DPI Water. I think the conversation
just shows us how broad this issue of liveability is and it
does involve many players.

MR YOUNG: Yes.

MS COLE: As part of the DPI water's role in developing
the Metropolitan Water Plan, in the review of that plan,
one of our key objectives is supporting liveable and
resilient communities so we have captured that in the
objectives of our long-term water planning. As part of
that metro plan, we will look at economically efficient
approaches or strategies for water recycling and
conservation.

While that is one element of liveability, it is one
where we can try and capture that and Sydney Water's
operating licence has a requirement to look at the economic
benefit of water conservation and that is part of
supporting some of those processes that do add to
liveability that add to it as part of the big picture.
That is probably just an observation on how you can link it
back to some of that work that is reflected in the
operating licences of Sydney Water and the metro plan.

THE CHAIRMAN: Sure, thanks. Sarah, would you like to
stay something or Stephen?

MS CLIFT: As Stephen introduced I represent the
Parramatta River Catchment Group, which actually represents
13 councils that sit within the Parramatta River catchment,
but also Sydney Water is a member of that group. We are
obviously working actively in partnership with Sydney Water
to realise the vision and mission to make the Parramatta
River swimmable again. That is really a community-focused
vision and it certainly has broad ground community support
for us to achieve that.

I guess part of our interest in today is really
resonating with the broader discussion around given the
amount of growth that will happen within our catchment in
the next 10 or 15 years looking now, making decisions now
based on seeing all of this, there is an opportunity in a
time where we are not in drought and in a time where there
are resources, I guess, actually setting forwards, how do
we invest our money towards transitioning towards this
liveable water-sensitive city that we are, I think,
mutually aspiring to?
As a few people have mentioned, how do we value the
community benefit that is broader than just what is within
their bill and ask those broader questions? How does the
bill reflect community's desire, for example, to swim in
their local waterways and to have local activated areas
this they can enjoy and that reduce health costs and other
things? That's just a general comment.

THE CHAIRMAN: Sure, thanks, Sarah. Stephen?

MR SUMMERHAYES: We advance the intrinsic value of
water for liveability but especially in the context of catchment
coastal ecosystems. We champion the full cost pricing, as
Leigh mentioned, and the allocation of adequate funds to
restore, rehabilitate and maintain coastal catchments
impacted by Sydney Water's operations.

We also recognise the traditional custodians'
relationship to land and to water. With the assistance of
IPART we have facilitated the presence this afternoon of
the Metropolitan Local Aboriginal Land Council to hear
their voice as well. My question to Mr Young is why do you
think that charging the lowest cost for water provides the
best value for your customers?

MR YOUNG: No, I don't. So we did that community
research --

MR SUMMERHAYES: I'm sorry, I missed that.

MR YOUNG: I don't. We did that community research
looking at what choice customers can make between a higher
fixed charge and a smaller variable and a higher variable
charge and a smaller fixed. What we proposed is that we
keep the usage charge high, because we think that is in
line with the conservation signal.

I know there is a debate in economic terms about long
run marginal costs, which can be a discussion later, but
our view is that it should be kept high and that we should
not lose the signal. Am I answering your question or are
you saying that it - what is your question?

THE CHAIRMAN: Do you have a follow-up question, Stephen,
because I am going to ask for questions from the floor?

THE CHAIRMAN: Stephen, you will get ample opportunity.
Let me just open to the floor to see if there are some
questions or comments from the floor. Anybody in the
audience?

MS KOTEVSKA: I am Svetlana Kotevska from the Georges
River Combined Councils Committee, also represented by
Stephen and Sarah.

There was a comment made by Sydney Water about
maintaining your performance against your operating licence
and your environmental protection licence. The key word is
"maintain", but we thought you guys were trying to improve
your performance long term. Can you elaborate on that, please?

THE CHAIRMAN: Thank you. Kevin?

MR YOUNG: We definitely said we will maintain, but
I think publicly I said "maintain or improve". If we can
find better ways of doing things with the money we have, we
would love to drive that value proposition forward. So it
is maintain or improve but not go backwards. Cheaper bills
does not mean we are dropping standards of service, but it
is against what our operating licence says is what we have
to meet, which is quite specific.

MR FUNSTON: Kris Funston, Sydney Water. Further to
Kevin's point I think he was raising that earlier the
performance in terms of service to customer has actually
improved. We have still maintained our performance against
have done is produced more cogeneration of our sites, and

I think our energy record is excellent. What we

MR YOUNG: You raised a number of ques
costs is a real missed opportunity.

lowering customer bills without considering environmental

THE CHAIRMAN: Any other question from the floor or

THE CHAIRMAN: Sure.

MS KOTEVSKA: Can I follow up?

THE CHAIRMAN: Sure.

MS KOTEVSKA: I just note that you guys say $235 million
operating costs over the last four-year period. That was a
great opportunity to invest in improvements in some of your
sewerage treatment plants. While that is one of the issues
that the GRCCC represents, as we advocate on that issue, we
have an active voice to industry in the Georges River that
we are trying to protect. We have had recent incidents of
sewage overflows there and that is directly related to the
fact that you have outsourced your energy as well - your
energy side of things.

I think there were two sources of power and one of
them actually came off. It was an Ausgrid issue. I am
thinking that there were opportunities there and if you are
looking at saving and making more savings long term,
I don't know how that is consistent with improving your
work against your environmental protection licence.

I want to put that point down as well as the fact that
I support everyone else's issues on the liveability matter.
I know we are working with Sydney Water on that as well
with various Georges River water improvement plans as well
as Cooks River and Parramatta River. I know there is work
on that space and that is really positive, but I think
lowering customer bills without considering environmental
costs is a real missed opportunity.

MR YOUNG: You raised a number of questions and one on
energy. I think our energy record is excellent. What we
have done is produced more cogeneration of our sites, and

At the moment, we are pushing that we have met what
IPART has set for us with the capital and the operating and
if we can do better than that, then we transfer that to
customers. There is a different view that that actually
provides a pool for us to do things that have not been set
by IPART and I think that is the discussion.

Then we actually would be subject to a prudency review
at the next IPART hearing: "What did you spend the money
on and how did you decide that you wanted to invest in
these projects rather than to reduce customers' bills?"
That would be a critical review that IPART would look at us
to say, "What are you doing here?"

Again I think it goes back to IPART. We spend our
money under a regulatory framework as regulated by IPART
and we are trying to do the best we can to be prudent and
efficient.

THE CHAIRMAN: I have been holding off waiting for it to
come back to IPART. That is what has happened.

MR YOUNG: You will know, Mr Chairman, that I always
pass that football that way.

THE CHAIRMAN: With the question that you have raised,
Sydney Water has licence obligations. They have a licence
and IPART licenses them. That was subject to a
comprehensive and exhaustive consultative process,
including a session in this room, and we had lots of
submissions, so that goes into the licenses.

Then there is the EPA and various other environmental
issues which are adopted in EPA regulations and Sydney
Water, like any other utility, has to price sufficiently to
cover their costs and meet their licence obligations and
meet their EPA regulatory and any other regulatory
obligations.

Sydney Water has put in a proposal against those
benchmarks. What they are saying is that they can meet the
EPA. They can meet the Metropolitan Water Plan. They can
meet all that and cover their costs and give customers a
decrease in price. That is the position they have put in
and that is against what they will be evaluated.

To suggest, which is quite reasonable, like a number
of participants have said, "Well, there are bigger issues
than this. There are issues to do with the George River.
There are issues to do with liveability and things like
that", in a sense until those are reflected or through the
licence or through an EPA regulation or some other
regulation adopted by the government, Sydney Water does
not have to price to meet them.

That does not mean to say that if Sydney Water has
some margin for manoeuvre, which they clearly did in the
last four years, that they won't use that money on a
discretionary basis, subject to their board, of course, and
invest in things which go to improving liveability.

We just need to be careful that we are asking Sydney
Water to do something that they, in a sense, cannot do
because if they were to put in a pricing proposal which
generated a surplus - ie, it was well above meeting their
licence, well above meeting their EPA and any other
environmental or other requirements set down by government,
and well above costs - in a sense, they would be making a
surplus which would be difficult to justify because there
are lots of people who struggle to pay their water bills
and they are already paying water bills which have
environmental, liveability and various other things
reflected in government statutes and licences within that.

By arguing that they should meet higher standards -

that is a perfectly legitimate argument; we all hear it -
for Sydney Water to be obliged to meet it, as opposed to
voluntarily contributing to it, it would need to be
reflected through these regulations and other requirements.

This is a great discussion and we encourage it. It is
a great discussion, but we need to be a bit careful we are
not asking Sydney Water to do something which they can't do
which somebody else should do.

Now, Stephen, I see you chomping at the bit.

MR SUMMERHAYES: We do recognise the licensing
environment in which you operate but we are looking to
Sydney Water to exercise leadership and champion this liveability
and maximise the outcomes. To build on Mr Young's mention
of the community survey, there was a 2002 report issued
entitled 'Full-Cost Water Pricing Guidebook for Sustainable
Community Water Systems.' It says:

Residents, given a choice, typically vote
in favour of cheaper utility services.
Public utility governing bodies, therefore,
face the difficult task of ensuring that
derisions balance their constituents'
need for affordable water with the
long-term financial health of their
community water system

So looking forward, how has Sydney Water endeavoured to
reconcile those two things and how you will do that because
I am unable to find that sort of reconciliation within the
proposal?

MR YOUNG: That is fair comment, but we have done a fair
bit of work, although it is not in our pricing submission.
What we know from our community research is that you have
segments in the community. I think around a third of our
customers say, "Given the affordability issues, just meet
my basic needs and do it as cheaply as you possibly can." Another group says, "Make it easy for us. We want to have
water 24/7. Our life is busy enough so meet our basic
needs and make it easy for us." But there is sort of a
number or a segment in the community that says, "No, lead
and educate and drive to a better outcome. So be a voice", and
that is what we have picked up. We do want to drive
bills lower; we do want to make things easier for them; and
we do want to pick up what we are picking up at the moment and we want to be a voice in this community debate.

MR SUMMERHAYES: If the reductions are based on 70 per cent, which is outside your control and therefore unreliable, if the prices are reduced, did you survey the community’s receptability to increasing the prices perhaps back to the pre-reduction levels or even greater into the future? I would have thought that would have been quite a difficult change to implement.

MR FUNSTON: No, we did not look at that. What we looked at was the price associated with cost recovery associated with our efficient costs and what was the preferred tariff structure of customers and various segments of customers.

MR SUMMERHAYES: Chair, will IPART consider if the environmental conditions upon which the reduction is predicated change or do not arise such that prices will need to increase, whether that will create more community dissension than maintaining prices in their current form?

THE CHAIRMAN: In a word, Stephen, IPART considers everything that is said in this room and all written submissions. What we do is we set a price for four years, so we have to make a judgment for four years, or whatever the length of the term is, but let’s say, for argument’s sake, it is four years. We set that price for four years.

That determination is only reopened in quite extraordinary circumstances. It could be reopened at the request of Sydney Water. It could be reopened at the request of the government, but in general it is not reopened. The only one that I can think of would have been when the government decided not to go ahead with Tillegra Dam and they reopened the Hunter Water determination.

If there were a major environmental event partway through the determination and Sydney Water or the government or some other group were to request a reopening, we would consider that. However just so you know, reopening a determination is (a) quite unusual and (b) quite a costly process because, under our Act, you cannot reopen a determination and tweak something. You actually have to go through the whole process again. I hope that answers your question.

THE CHAIRMAN: No, the question is at that next determination, which will be in, say, four years time, IPART will look at the costs including if interest rates go up, for example, the WACC goes up, we will look at that. We will also look if there has been a change in the environmental regulations or if there has been a change in other government requirements which Sydney Water is obliged to service, we will look at that and take it into account.

If we determine that the price to cover costs and all the other regulatory responsibilities including liveability of cities means an increase in price, IPART will do that. They will do that. This is not a matter of, “let’s not reduce it now because in the future we might not be able to put it up”. We will put it up - we will put it up.

MR SUMMERHAYES: But if you are considering the community and that was really the focus --

THE CHAIRMAN: But we are considering the community. The way we consider the community is the way the community’s desires are expressed through regulation and in legislation, through government. If government decides to amend part of the environmental Act and create new regulations, then Sydney Water will need to conform to that and that will be reflected in price.

MR SUMMERHAYES: Thank you. A reduction in --

MR YOUNG: Could I come in on that too? I am opposed to the idea that if our proposal is the prices drop, therefore it creates a pool that you can hypothecate against certain proposals, because it means that it is separate from a value proposition and the engagement that you have with the community. It also means that if that is the way you work it, the next time prices go up you say, “Well, there is no pool available.”

What we need is a really robust discussion with a number of key players coming together to put the value proposition forward that there is strong community support for this, that it is welcomed by the community and these are really good investments. As Peter says, even if prices were going up plus interest rates were up, if you make that
strong case, then money will be found available for it. It has to be a value proposition like everything else.

MR SUMMERHAYES: Sydney Water has a lot of unfunded goals that money should first be applied to before we start reducing prices, in my submission. For example, the raw sewage discharge at Diamond Bay would provide substantial community benefit long term.

The reduction in the price of water services can have a lot of custodial consequential impacts. For example, for local government they have incentive schemes for rainwater tanks. If water is cheaper, then there may be less of an incentive to put in a rainwater tank, which then creates downstream impacts - pardon the pun - such as greater run-off or things like that. There are also different price signals given to the community in terms of the value of water and the value of services. How are those elements considered in the proposal?

MR YOUNG: There seems to be some confusion that Sydney Water is proposing that the water usage price be a lot lower - we are not; our submission is that the water usage price should be kept high. That is in line with our community survey and our engagement, therefore, we think keeping the water usage price high does encourage water conservation and efficiency.

MR SUMMERHAYES: You have determined the allocation of the reduction. You have could have indeed increased the water usage and reduced much more the service charge.

MR YOUNG: Absolutely, at the end of the day that is an IPART ruling about how much of it should be fixed and how much should be variable. That is why on days like today different points of view on what it could be are all things that IPART will take into account in the final decision.

Ours is just a proposal that we have put forward based on our community research. I have always said it is a proposal not an outcome and it will depend on IPART weighing up what they see is the right way forward.

THE CHAIRMAN: Are there any other questions or comments?

Yes, Kristal?

MS BURRY: In terms of liveability, we support any broader discussions around that topic. I also want to point out that part of liveability is affordability.

MR YOUNG: That is true.

MS BURRY: Obviously it is a balance between short term pricing and longer term goals that are harder to value, and things like that, but we just want it to be kept in mind that there are segments of the community that do struggle with their bills that might not be able to have the willingness to pay that others have. We want to make sure that they are not left out of the conversation. The liveability question is not just about making the city more liveable, but liveable for who? It should be for everyone who lives in Sydney.

Yes, we recognise there are environmental concerns and there are things that we have been spending money on to make improvements there but we, as a group that advocates on behalf of consumers, want it remembered that affordability is a key component of that liveability question.

MR SUMMERHAYES: The disadvantage can be addressed in other mechanisms within the pricing scheme.

MS BURRY: Yes, and there are aspects of that.

THE CHAIRMAN: I think we can discuss this, and we will discuss this right through the day.

Indeed, in our last session we have the issue of the Rouse Hill land plan. Here is a very practical issue about who should pay for some past environmental development. There are issues about whether the residents should pay 100 per cent or just a proportion of it because some of the benefits are for the community, broadly speaking.

Even if there is a change - for example, if there's a change to the environmental regulations or there is a need for Sydney Water to undertake investment in a particular community to address certain issues, including liveability issues - there then is an issue about who should pay for that? Should it just be the people who live in that community or should it be the Sydney Water consumers as a whole including some consumers who might be struggling with affordability and live nowhere near the area?
These are important issues and there will be ample opportunity for them to come up. I am not trying to cut you guys off. I am just saying hang around because there will be plenty more chance to discuss it.

That is a particular issue that Sydney Water and the tribunal have wrestled with. At the last determination, we made a determination to, in a sense, bill the local residents something like 70 or 80 per cent, I think, and then the rest of the water consumers would pay the remaining 25 per cent. Not surprisingly that was not well received by the local residents, and that issue is up for discussion again.

These are very practical outcomes, so even if you identify an area like Georges River or Cooks River, or something like that, and you point to issues which you think need to be addressed and everybody agrees they need to be addressed and Sydney Water goes ahead and addresses them, the next issue is who should pay for it? Should it be the taxpayer as a whole or just the local residents; or a mixture of the three? It is a very important issue and we will be able to discuss it further with the concrete case of Rouse Hill.

MR EDGERTON: Just to change tack a little bit, in Scott’s presentation when he showed Sydney Water’s actual operating expenditure over the last four years, it highlighted that Sydney Water actually achieved quite significant operating expenditure savings, particularly around 2013-14 there was a real dip. Then for the rest of the price path, it remained relatively flat and going forward, you are projecting some decrease in operating expenditure, but again it is remaining relatively flat.

What that highlights is that in terms of ongoing efficiency gains relative to the last determination period, you are actually forecasting a decline in ongoing efficiency gains. Can you respond, I guess, to the question, which is really the second question we had on that slide - why can’t 2012-16 savings in operating costs be continued and improved upon?

MR YOUNG: In previous price submissions when we have achieved great savings, there has been an IPART discussion which said, “Can you continue this for the next 15 years?” When I extrapolated that, it came down to a dollar and I said, “Look, the line has got to flatten off eventually. You cannot run the business for a dollar.”

The discussion there was we looked at what we can do with the business and we decided that we would restructure the entire organisation’s executive team. In that first year, we restructured the entire business. I think I had 13 direct reports and we cut it back to eight. Of that two were new people and we elevated the CIO to CIT as our future with the change.

We pulled a huge lever, which is that we did benchmarking and outsourced all of our electrical and mechanical people to the market. As I said, with the civil, we had a conversation and said, “You’ve got three years to achieve best practice benchmarks in Australia or we’ll outsource you.” We centralised all procurement to drive major change. We picked up from the previous consultant on conditional assessments and asset management driving forward. Putting all that there, we pulled all these massive levers.

Looking over the next four years, of these big streams that we pulled and driving the market, there are not the big levers. We have pulled a number of those major levers. Even though you say productivity is dropping off, we see massive growth in Sydney and we are holding our costs independent of this incredible growth we see in Sydney. We are wearing all of those costs that we see in this market at the present time. So inherently the price per property is still dropping over that period.

THE CHAIRMAN: One last question or comment before we break for lunch?

MR DAHL: Kurt Dahl from Permeate Partners. I noticed one of the line items up there on expenditure on capex was around about $600 million to service growth and I noted the Chair’s comments there before around who pays - should it be the beneficiaries of these new assets? Should it be the broader customer base? There is a mantra at the moment about new areas at no cost to government.

Given that growth is on the urban fringe and those...
areas are increasingly more expensive to service, I wonder if you could comment on Sydney Water's view on why the broader customer base should pay for those growth assets.

MR YOUNG: That is another great topic.

MS GAMBLE: Sandra Gamble from Sydney Water. We have a system throughout Sydney Water where we connect all the customers - all new customers and all existing customers - and we postage stamp price. We find that is the most efficient way to service each one of those customers.

It is true that in some of the western areas the cost of providing additional connections is significantly higher than the cost of providing new connections in the built-up areas. That is mainly because of the additional cost of treating wastewater that we then dispose of in the Hawkesbury-Nepean system where we have to tertiary treat it; whereas for all the community up to about St Mary's coastal plants where it is primary treated and put out into the ocean outfalls, which turned 25 last Friday. What we are finding, though, is that not all the growth is in the west; a lot of the growth is in the infill areas as well. A very large number of new connections are in the infill areas and some are in the west.

What we would like, though, in the longer term is a situation where there are better pricing signals for new development so that when developers, or in fact when new people are entering the city and they make a judgment about where they live, can get some sort of pricing signal about where the most efficient provision of infrastructure will be. Sometimes it will be determined by water, sometimes it will be determined by roads and rails or schools and hospitals and other things, but at least the contribution of cost from building new water assets probably should come through some sort of developer charge, and we have raised that a few times.

We would be very keen to contribute to a conversation with IPART, and with stakeholders, about how we can potentially introduce a developer charge that is simple and provides that meaningful pricing signal and potentially also - and this is the good part - can also reflect some greater value that some members of the community may see in liveability and potentially the standard of living they would like to have from water as well. I think we're dealing with that situation at the moment.

THE CHAIRMAN: That is a very good question. Basically we have a situation where we have postage stamp pricing, which means that Sydney Water cannot differentiate in terms of pricing. The other thing is that the government in 2008 set developer charges equal to zero in both Sydney and the Hunter area. With both of those two policy constraints, it is not possible to differentiate along the lines suggested in your question.

That is a great note to break on for lunch and I look forward to seeing you all at 1.20, thank you.

LUNCHEON ADJOURNMENT

UPON RESUMPTION

THE CHAIRMAN: Welcome back. This is the second session which is "Form of regulation". We are going to have Matt Mansell from IPART open with a short presentation; then Jeff Balchin, who is a consultant with Sydney Water will make a presentation; Matt will just get up to put up the final slide of questions; and then we will move into discussion. Thank you, Matt.

SESSION 2: FORM OF REGULATION

MR MANSELL: Good afternoon. My name is Matthew Mansell and I am a member of the IPART secretariat. I will now introduce the session on form of regulation. Form of regulation refers to the regulatory framework and methods used to control prices for regulated services. Sydney Water has proposed three changes to the form of regulation:

1. An efficiency benefit sharing scheme for controllable operating expenditure and a portion of capital expenditure. This would allow Sydney Water to hold efficiency savings for five years before sharing the benefits with customers through lower prices. It would also allow Sydney Water to hold efficiency losses for five years.
years before sharing the losses with customers through higher prices.
3. A cost recovery framework that would allow Sydney Water to pass through costs to customers that result from either unexpected events or from projects that are not fully defined at the time of the price review. This pricing flexibility would be based on pricing principles, for example, that prices should be cost reflective, and it would be limited by side constraints, for example, limits on how much prices for individual customers are allowed to change each year.

In our issues paper, we said that we are open to considering a weighted average price cap for large non-residential customers noting that it will propose to expand coverage of the weighted average price cap at the next price review. Sydney Water does not support IPART's option to allow Sydney customers a choice between regulated prices and alternative prices offered by Sydney Water.

For other stakeholders, there was some support for efficiency incentive schemes on the condition that they are developed through consultation and ultimately benefit customers. There was some support for pricing flexibility on the condition it is developed through consultation and results in greater customer choice. Some do not support a weighted average price cap noting that it would increase administrative costs while offering little potential benefit to customers.

Before we move to the discussion, Sydney Water has requested an opportunity to present on its proposed efficiency benefit sharing scheme so I now invite Sydney Water to the front.
clear about that. We certainly do agree that this cost
recovery regime should be only for extraordinary
circumstances. The second element is a greater flexibility
in pricing structures and, thirdly, an efficiency benefit
sharing scheme.

Like any regulator, I am sure that IPART would be
concerned about the possibility of gaming some of these
schemes, so what we would like to do is talk to you about
the checks and balances that should be in place and, most
importantly, the transparency with which they be practised,
and we are very aware of IPART’s discretion to take
recourse if indeed something untoward were to happen.

I will speak briefly about the pricing flexibility
I think I have clarified in relation to the cost
pass-through that we agree that should be only in relation
to extraordinary circumstances. In pricing flexibility we
are proposing the introduction of a flexibility mechanism
within which we may be able to set prices during the
regulatory period within the revenue determination set by
IPART.

So it is about re-balancing prices within side
constraints that IPART would set. This would enable us to
vary prices and service offerings to customers to reflect
their preferences and encourages us to be more
cost-reflective. This enables IPART to step away from
setting over 100 prices and structures and levels in each
determination.

In its issues paper, IPART said it was open for
flexibility for non-residential customers, in particular
large ones, and we agree that this is a pragmatic approach
and a good first step.

Our engagement with customers shows that they have a
range of preferences around pricing structures and they
value different things. We are confident that we can
demonstrate through a pilot of some description that we can
undertake pricing flexibility responsibly and improve the
allocative efficiency of our pricing policy.

We would like to run some pilot programs with specific
large non-residential customers with the initial objective
of discovering more about what they value. We are
currently considering which customers would be suitable -
you actually buy information from the firm that you can use to assist in setting the forecast next time and therefore pass on these benefits to customers.

I was asked by Sydney Water to review their scheme and my general finding was that their proposed scheme was very similar to what we have used in the energy sector in Australia now for a number of years. However, in some words of irony, this is not actually imposing energy sector regulation on the water sector because what we applied in the energy sector in Australia was borrowed from the UK water regulations from back as far as 1994. So this is really carry-overs returning to the industry from whence they were first derived.

IPART made a number of critical comments about the incentive properties of the Sydney Water scheme and agreed with them that there was a defect in the scheme as proposed. There is quite a technical adjustment that needs to be made where the second to last year - the penultimate year - of a regulatory period is used to forecast costs next time, and I found that once that adjustment has been made, the incentive issues that were identified in the issues paper will disappear and the scheme will work as intended.

In contrast, I looked at some of the incentive properties of the alternative model and I found that the alternative model, which is one that applies differently depending on whether you are spending more or less than the allowance at any point in time, has a number of inherent deficiencies where you flick between spending more or less than the allowance.

One other concern that was raised in the issues paper was whether an inherent feature of the efficiency carry-over type scheme is that you have to use the actual expenditure at the end of the period to forecast next time and that includes some form of efficiency adjustment.

What I would like to make clear is that it does not actually preclude that. They can operate side by side. There are some issues that one needs to be made aware of to make that consistent. I have noted a couple here, but there are situations where if a firm is found to be inefficient, they can end up bearing 100 per cent of the inefficiency if you just apply the carry-over according to its mathematical formulas. So judgment and the ability to exercise discretion is required in the application of the carry-over if you choose to have discretion to test the efficiency of expenditure and potentially complete the expenditure.

In terms of the capital expenditure, the broad objective of having a carry-over is fairly similar. You get unclear or declining incentives for efficiency at the end of a regulatory period if you don't have a carry-over for capex, and that is a real problem. It means that a firm would have less of a financial incentive to be efficient. You might end up having inefficient capital expenditure having been incurred and finding its way into the regulatory asset base and thereby into prices if the regulator is not good enough to detect it, and remember the philosophy is that regulation is not perfect.

I agree, though, with IPART that in terms of capex these are schemes that are more difficult to get right than opex. There are some difficulties. One is that the scheme itself, unlike opex, does not actually help you forecast. It helps you get confidence that actual capital expenditure is efficient and thereby it is something that should be recovered through pricing, but it does not actually help you set the allowance next time.

Also where projects are either deferred from one period to the next or advanced, you need to keep track of those and make an adjustment because the scheme naturally assumes any change in expenditure is a permanent change. So if it is a temporary change - either deferral or advancement - you need to make an adjustment and that is not necessarily easy to do.

In my view, though, what Sydney Water proposed was reasonably prudent. They proposed applying the capex scheme only to those areas that were a subset of their capex where they thought there were quite material benefits and where some of these difficulties could easily be ameliorated. To my mind, that is a walk before you run type of approach.

The last thing I wish make a couple of comments about is the incentive rates for efficiency schemes. The issues paper is quite right - this is an area where judgment needs to be exercised. In theory, there is an incentive rate...
that maximises benefits to customers. In practice, though, we can never guesstimate the inputs required to solve that or to get an incentive rate. 

There are also a number of other principles that are quite relevant when deciding an incentive rate. You don’t want to have very high incentives for cost minimisation if you don’t have a good handle on service performance - confidence in forecast matters, as I said before. 

There is also some measure of convenience in aligning holding periods to the term of the regulatory period. What I would say, though, is that the incentive rate that was proposed was reasonably modest compared with other incentives that are out there. It is a lower powered scheme than applies in energy in Australia and a much lower powered scheme than has applied recently in the UK regulatory determinations.

As I said, and I sort of come back to the start, this is something where it would have to be acknowledged that this is an area where judgment is exercised. Just to round out, this decision is one that is independent of the form of the incentive scheme. You can apply your determined or incentive rate that you think is correct irrespective of the actual form of the incentive scheme being derived.

I think my five minutes are up. Thank you.

THE CHAIRMAN: Thank you very much, Jeff. Matt will just put up the discussion points for this session.

MR MANSELL: Just to facilitate the discussion, we have put up a few suggested questions on the screen. These question include:

- Should the EBSS be limited to sharing efficiency benefits with customers or should it share both efficiency and losses with customers?
- In what circumstances should the risks of unexpected events and undefined projects be passed through to customers during the regulatory period?
- Would customers prefer Sydney Water have discretion to change prices or would they prefer a choice between regulated prices set by IPART and alternative prices offered by Sydney Water?

THE CHAIRMAN: Thank you, Matt. Questions or comments from around the table. Would anybody like to start?

Leigh?

MR MARTIN: Thank you, Peter. I want to focus specifically on the issue of cost pass-through and the weighted average price cap. I am somewhat agnostic on the efficiency benefit sharing scheme. In terms of cost pass-through, I think it is appropriate that there is a cost pass-through mechanism for unexpected events, and that might include dealing with environmental emergencies.

Stop me if it is more appropriate to consider this in the next session, but I noted from Sydney Water's submission that they were proposing a cost pass-through mechanism for operation of the desalination plant and also of Shoalhaven pumping. We would be strongly supportive of that, recognising that there are significant financial costs and also very significant environmental costs associated with both Shoalhaven pumping and the operation of the desalination plant.

We think it would be appropriate that customers get a signal when those higher costs are being incurred, both environmentally and financially, but also it should not be divorced from the issue of the desalination plant operating rules. It has long been our view that the current operating rules are inappropriate because the desalination plant, as the most expensive and environmentally damaging source of water, should be used as little as possible. If we did have a cost pass-through mechanism, that might be appropriate for the public debate on when it is appropriate for the plant to operate and when it is not, and the same would apply to the Shoalhaven pumping.

In terms of the weighted average price cap, I do have a significant concern, particularly if applied to large non-residential customers and Sydney Water was then able to negotiate arrangements with those customers. I see echoes here of Hunter Water's location-based pricing, whereby they were able to provide discounts to some of their large industrial customers which acts as a disincentive for many of those customers to switch to alternative sources of supply, like recycling, and that's a discussion we had last Monday at the Hunter.

I would be concerned about the possibility of a...
similar arrangement occurring where Sydney Water could essentially negotiate with the very sort of customers we would like to see moving to recycling in a way that might undercut the possibility of alternative schemes being developed.

THE CHAIRMAN: Thank you very much, Leigh. Who would like to go next? Cynthia, do you have any comments to make?

MS MITCHELL: No, I don't have any comments.

THE CHAIRMAN: That's fine. Stephen?

MR SUMMERHAYES: The cost recovery framework talks of unexpected events. Does it also factor in expected events such as climate change but potential outcomes?

THE CHAIRMAN: If an event is expected, it is meant to have been taken into account when the determination was made.

MR SUMMERHAYES: Does Sydney Water consider climate change as an expected event and, therefore, the costs associated with resilience activities, how are they factored into the pricing structure?

MR YOUNG: What we have done with the Water Services Association of Australia, we have developed a tool called AdaptWater.

MR SUMMERHAYES: I'm aware of that.

MR YOUNG: We use that to look at the best way to mitigate the impacts of climate change over the long term. Rather than a huge investment upfront, it is to look at options - the best cost options - in the longer term so we would look, for example, at increasing bushfire risks and sea level change. So that is our future approach - rather than seeing climate change appearing immediately with major cost expenses, it is over the longer term that climate change we believe will occur and we are factoring into our capital program mitigations against that in the work we do, particularly in renewables. For example, how can we bolster this station by putting buffers around it to allow for increasing sea level? It is more than just a mitigation part of the work we are doing now; it is a growing science within the business and we are taking a leadership role in the water industry on that.

MR SUMMERHAYES: When you say "mitigation", are you incorporating within that umbrella adaptation and --

MR YOUNG: Yes, exactly, exactly.

THE CHAIRMAN: Thanks, Stephen. Richard?

MR McMANUS: No comments, thank you.

THE CHAIRMAN: Benn?

MR TREHARNE: No, thanks.

THE CHAIRMAN: Cathy?

MS COLE: No, only what we talked about earlier this morning about having cost pass-through for drought response measures under the metro plan, whether that be for Sydney desal or Shoalhaven transfer.

THE CHAIRMAN: Thanks, Cathy. Kristal?

MS BURRY: We support cost pass-through mechanisms for very specific and defined events such as the desalination plant.

We have some broader general concerns about some of the regulatory changes. It always worries me when you mention energy as a potential model that is to be used. I don't know how many of you know, but we are currently involved in the regulatory process with that. I am concerned that any idea of potential factors being incorporated into the RAB would then allow Sydney Water to be getting a larger asset base to be able to say, "We need more money." I know potentially that is not what you would be doing, but I would want to see more information available for us to be able to make a proper comment on it. At the moment, what I have seen does not have as much substance as I would like to see to really be able to effectively comment on it because we do have some concerns as to how that may turn out in the future.

THE CHAIRMAN: Just to keep in mind with the RAB, the AER - the energy regulator - does not review capital expenditure after the event. In other words, if an
operator makes a capital expense, it goes into the RAB; whereas under IPART's Act, we are able to review it. We review past capital expenditure, so if an organisation such as Sydney Water or Hunter Water, or anybody like that, undertook capital expenditure which we deemed was not prudent and efficient, we would take it out of the RAB. That's just a second order point for you.

MR BALCHIN: Could I make a quick point of clarification? In terms of the efficiency scheme, the capital expenditure efficiency schemes have only just been introduced into energy. In the electricity sector, it was actually quite inefficient, there was no ability for the AER to test the prudence of expenditure. There were also no capex efficiency schemes. Both of those things have been changed as a result of the 2012 rule change. So the operating expenditure schemes are the ones that have been quite long-standing.

THE CHAIRMAN: Thank you, Jeff. Kevin, did you want to make a comment?

MR YOUNG: Leigh raised a few good points about SDP and the Shoalhaven and the pass-through, I think we are on a unity ticket there. Is that right, Leigh?

MR MARTIN: There's time for everything.

MR YOUNG: There's time for everything, the first time for everything to occur, so I obviously do agree with that.

With regard to the question about the location-based pricing for certain customers, and I was involved in the Hunter before on that, we definitely were not on the unity ticket for that when that came in. The question there was the competition for bigger customers seeing that we moved to location-based prices. However, I think the discussion in the Hunter was that the discounts were given to major customers and that there was an increase across the rest of the customer base.

What we would be proposing here would not be that we would arbitrarily give major discounts to major customers because in the price path there is no way to compensate for that loss. We are looking for other ways to look at pricing with major customers that would allow us some flexibility and who knows where that could take us? It could take us to some major customers who could say, "We don't want to use water on the hottest day so we don't want to have an impact on your capital system." That is a way where there is some benefit. That could be a broader incentive to drive capital efficiency. Those are the sorts of innovative things that we think we could discuss.

MR MARTIN: Could I respond to that?

THE CHAIRMAN: Yes, sure

MR MARTIN: I could see there may be some benefits in terms of you may negotiate interruptability clauses with customers.

MR YOUNG: Something like that, yes.

MR MARTIN: I can see some benefits there. My concern would be a situation where there are disincentives supplied for large customers to switch to alternative supplies.

THE CHAIRMAN: Stephen?

MR SUMMERHAYES: As a collective I mentioned before we cover 35 local government areas although we are not the voice of them individually but for our organisations. We deal with the local government practitioners, those who are on the field actually implementing urban water management. In response to all of them broadly, we support the changes where Sydney Water is able to demonstrate that the change does further the corporation's statutory objectives particularly in relation to environmental outcomes and reducing the impacts of its discharges.

THE CHAIRMAN: Good, thank you. Anybody else?

MR YOUNG: Peter, there is another point on that, if I could.

THE CHAIRMAN: Yes, go ahead.

MR YOUNG: With the efficiency benefit sharing scheme - I appreciate the point made by PIAC that there has to be a trust in this - fundamental to that is that we want to introduce that scheme because we want to really drive customer bills lower in the longer term, and that is the fundamental part of that. Whether it is the beginning of
At the moment if it is right near the price path, as an example, take a $10 million investment that will give a $2 million reduction if we are in the last year and we invest $10 million and get a $2 million saving, it is up in the price path in the next one. There is a disincentive there; you are better to wait until the beginning of the next price path to get the full period of it. We would like to just go hard for it over time. Our modelling shows over the longer term that that would create lower billing for customers over time.

MS JONES: If you leave something right to the end of a price path for various reasons, doesn't that introduce more risk into your business, which is not how you would run your business from a risk management point of view? Why wouldn't you run your business like that all the time where you spread out the risk?

MR YOUNG: So are you saying would it be better for us to do all these major investments in the price path? It is probably true that it is better for us, in the current regulatory regime, to wait for the next price path, put it up and then we would get the four full years of efficiencies. However, I don't think that is a good outcome for customers because you have lost a number of years where you could have had those efficiencies.

MR WILLETT: I have a follow-up question on the EBSS too, and it really is a devil's advocate question to Jeff. It picks up on this point that I think Jeff was very careful to recognise, namely, that there are several distortions in the investment incentives, and I appreciate that. Briefly they are differential incentives for different year spends or different year savings, particularly in terms of capex programs, and the sort of penultimate year problem where you make forward projections to the next period's capital spend, and then there is the deferral savings problem in that distortion.

I think we all recognise that this sort of regulation is an imperfect process. I just worry that the more complex we make these arrangements, the more difficult it is to understand what those imperfections are and what they are likely to do. What guarantees or what satisfaction can we take that moving into this more complex incentive world will actually improve understanding of the regulatory process rather than undermine it?

MR BALCHIN: I think, for a start, to make incentive regulation work, there is an investment and a measure of flexibility that you need to introduce. You either have a very simple approach to regulation incentives or you can invest in a measure of complexity and you can have incentives much better aligned with the social good. I've heard that described once as the idea of the duck swimming flapping below - and that represents all the complexity of the regulatory arrangements to create incentives - but once you get that right, the regulation actually becomes simpler when you get the financial incentive right.

The actual design of the regulatory scheme is complex, but the process of regulation itself becomes a simpler task, so you actually switch the complexity from one bucket to the other bucket and invest in a more complex scheme upfront to make it a simpler process in the actual application agreement. You don't have to work as hard as to whether capex is actually efficient before you roll it into the RAB. You know the incentives are there, you have done some investment. You have worked out the incentive characteristics of the scheme and you know where the problems are so that's what you focus on, but by and large the thing works. For opex we have a lot of understanding about how that scheme works and where the problems are. So it makes the actual process of regulation much simpler.

I don't think we are actually talking about a net change in complexity but just talking about switching the change. The question is what actually works better? Having a complex regulatory approach where the regulator is given this almost impossible task of working out what a business needs to do, is that a better way of regulating, or is it better to provide financial incentives and leave it up to the business to work out what is the cheapest way of doing things and to harness all of their own internal expertise and have everyone pointing in the right direction?

I do not think there is proof of that statement, there is a leap of faith, but I am certainly of the belief it
Capex has had a bit of a chequered past because we have not had a very good scheme for capex in energy. To be perfectly frank, there was a fairly large overreaction to perceived investment problems in the mid-2000s that generated some fairly poor public policy decisions and those things have taken some period of time. I don't think we want to be talking about repeating that. One of the reactions to that now is to put in place proper incentives in capex so the pendulum will swing back more towards equilibrium.

In terms of opex in the energy sector, we have seen very good evidence that these schemes actually work. THE CHAIRMAN: In the case of opex, are the examples mainly with private sector firms that are regulated or public sector firms?

MR BALCHIN: To a large extent the clearest examples are the private sector ones. My observations of the public sector is that a lot of them are case specific. Some of them react very well to financial incentives. Some of them have other pressures on them that don't allow them to react. The pressure most of them have is to do the exact opposite. It does depend on the actual entity and how committed the government of the day is to having the entity running a commercial business and actually responding to financial incentives.

THE CHAIRMAN: Thanks, Jeff. Questions or comments from the floor? Yes?

MS JAMES: Emma James from E2DesignLab. I am just wondering whether there is any chance that the cost recovery framework could be linked to the discussions from the first session relating to liveability? Is there any way that a federal and state supported initiative on cities could be defined as an undefined project and then the cost fee passed through in the coming determination?

I appreciate Sydney Water's position in supporting liveability, but I am frustrated by the thought that we have to wait until the next determination period to do anything about it, given that the next decade of urban growth is being planned now for Western Sydney. If we don't do something different, then the Western Sydney growth corridor will be delivered with 15 degree temperature differentials, when they could have water in the landscape and better outcomes with known technologies.

MS GAMBLE: The first thing I would say is that we are actively involved in the growth centres in the conversation about how water is delivered and serviced in those areas. We are certainly participating in a debate about what can actually be done. We are certainly not standing still and we are also not providing the conventional solution and that's it. We are thinking about a whole range of different innovative solutions. I can assure you about that, from that perspective.

From the point of view of continued projects or cost recovery, I guess theoretically it is possible. If we did have a new obligation to provide that expenditure or to do a certain thing, yes, technically, it could work. I am not sure if that is what it is really designed to do, though, I think there are probably better ways to tune the regulatory framework to encourage that type of activity.

MR YOUNG: I think it goes to the heart of what we were talking about with the Sydney desalination plant starting and the costs of that have been reviewed by IPART. They have determined what is prudent and efficient. We know what the costs are. It has been regulated. If it occurs, then we are absolutely crystal clear and therefore it could be a cost pass-through because it does not require IPART to do a major exercise with the community on the cost. It is there.

I am trying to think of another example. It could be that there's a tax that comes on for utilities which is $100 a household, just a utility tax. Don't start any media on this because there is no proposal on that, but if that were to occur, is it reasonable that it be a pass-through to every household or should it be borne by the utility itself when that was never envisaged? But it is crystal clear and it is simple.

However the question you raised is very good one and it comes to that debate of how much money should we spend? If it is a cost pass-through how does IPART determine the value? If we go back to the discussion we had this morning.
on the value proposition, IPART has the view, as I think
Peter said, that affordability is part of a liveable city.
So how does IPART weigh up the issues of the community
debate on those trade-offs on the affordability?
That is more, I suspect, than what a cost pass-through
mechanism is, which is more something that happens that you
cannot ensure for, but it is something that is something
that is a lot clearer cut in the dollars. Does that answer
your question? It is a reasonable question for you to ask.
MS JAMES: It does make me think is there then value in
the weighted average price cap for residential customers?
At least that would give that proportion of customers who
are showing willingness to pay for something different an
opportunity to do so. I also appreciate the position of
the tribunal wanting to just have regulation and say, "Yes,
regulation says do this. Yes, it is all efficient", but it
is delivering the wrong outcome, so it is not what the
customers want in the end.
THE CHAIRMAN: That is a pretty interesting suggestion to
have a weighted average price cap for residential
customers. It means that, if that there were the case,
Sydney Water would no longer have to use postage stamp
pricing and they could differentiate pricing for different
customers according to costs, according to environmental
outcomes or anything else as long as it was within the
percentage increase put forward. That is a pretty
interesting proposition.
As we discussed just before the break, two issues that
Sydney Water and IPART labour under are postage stamp
pricing and developer charges sets to zero, so, yes,
let's take that one on board.
On the issue about getting the wrong outcome, we are
in a functioning democracy. State parliament sets laws.
It makes regulations, including environmental regulations.
Sydney Water, like anybody else, has to conform to these
regulations. They have to invest sufficient so that they
can operate clear of these regulations.
When we do the pricing, we take into account the costs
of Sydney Water in abiding by various regulations and also
covering their costs and that is how we set the price. For
this to really change, one way this could change is that

the government could adopt some regulations pertaining to
liveable cities and other issues that have been raised.
They could demand that Sydney Water and all other water
companies abide by that. If that were the case, that would
be factored into the cost base and the price would be set
to cover it.
Then there is the other issue which we touched on this
morning about who should pay it. In a sense, you got to
that with your suggestion on weighted average price cap for
residents. The issue is whether the people in the area
which is benefiting from the environmental investment pay
all of it or some of it and who pays the rest? These
issues can be progressed but it requires decisions by
government to change the regulations under which Sydney
Water and other water companies operate and then we will
take that into account in pricing.
Obviously IPART can't just freelance it and
say, "Well, we're taking into account liveable cities."
Somebody else could come up and say, "Why don't you take
into account native fauna and feral animals and non-feral
animals." That is not IPART's job. We are not the elected
representatives. It is the government's job to make
decisions about what are the regulations under which Sydney
Water operates and then we set the price where Sydney Water
can fulfil its obligations.
These are very interesting issues. They are long-term
issues because, at the moment, we have a policy framework
within which we operate, but that does not mean to say that
people should not raise those issues. Stephen?
MR SUMMERHAYES: The concept of liveability may be
somewhat superfluous if the pricing is a full cost
accounting pricing, so it does incorporate all those
externalities like social cost. Is a weighted average
price cap then a better mechanism to enable Sydney Water to
include all those externalities in its pricing?
THE CHAIRMAN: As to what would happen with a weighted
average price cap, we used to do this for electricity. We
would come up with a result which said that prices can go
up on average 3 per cent, let's say. That would then mean
the electricity retailer can set individual prices, but
they have to be set - we used to check them when they set
them - so that the weighted average of the individual
prices is not more than 3 per cent. What that allows the retailer to do and what it would allow Sydney Water to do, if it was in the determination, is differentiate between different customers.

Now, you could differentiate between different customers but the other point that you, Stephen, and others are raising is actually what goes into the cost base, right? So 3 per cent can be on a cost base with a lot of expenses in there for liveable cities or other environmentally worthwhile things or it can be a cost base which is based just on Sydney Water covering its costs.

MR SUMMERHAYES: Where does it say in that cost base that it is not to include those externalities like environmental costs, social costs such as scarcity?

THE CHAIRMAN: It does not say that. What it says relates to the cost of Sydney Water conforming to regulations. Just in shorthand, take an environmental regulation or something about issues about flood management in the Hawkesbury, or something like that, what it says is that Sydney Water needs to recoup enough revenue to recover those costs.

Sometimes the government can give us a direction and say that they want a particular project done and that IPART is to flow these costs through into Sydney Water's prices. They could do that.

MR WILLETT: Just to add that, externalities are called externalities because the costs are external to the firm. They are not actually costs that are incurred by the firm, and we are looking at the costs that are faced by the firm. Going back to what Peter said, to capture those externalities actually needs policy change to recognise those externalities and say, "Sydney Water you are imposing those costs and they will be included in what you do."

MR SUMMERHAYES: I would submit that they are internal to the corporation's objectives, so captured under those, although, I have described them as "externalities", but they still fit broadly within that sort of framework.

MR WILLETT: It goes back to Peter's point about what are the costs of doing business for Sydney Water under the current legislation.

MS MITCHELL: Perhaps I could ask a related but slightly different question.

THE CHAIRMAN: Sure.

MS MITCHELL: I'll just say that this is the first time I have been involved in a tribunal of this nature, so I am learning.

THE CHAIRMAN: And you are welcome.

MS MITCHELL: I must say I am fascinated by the discussion and by the idea that what limits what we are talking about here is Sydney Water's obligation under the operating licence. There seems to me to be - and I think this is what we are talking about here - a gap between what is specified in Sydney Water's operating licence and what Sydney Water has as its objectives. I am not sure if it --

THE CHAIRMAN: Sorry, Cynthia, it's not just the operating licence, it is also --

MS MITCHELL: And the regulatory requirements.

THE CHAIRMAN: Yes.

MS MITCHELL: Sorry, my apologies. So it is the combination of the operating licence and meeting the regulatory requirements, of course. Then there is what else Sydney Water says it would like to do. How does Sydney Water fund those other objectives? Liveability is the one we have been talking about. I am not familiar with --

THE CHAIRMAN: In the event that Sydney Water has objectives over and above its operating licence and the regulatory regime - let's just combine those --

MS MITCHELL: Yes.

THE CHAIRMAN: -- and paying its bills, to deliver the water, they can fund that out of their surplus if they want to and then they can have a discussion with the New South Wales treasury about how much dividend they pay and how much tax they pay. However, the point here is we are asked to determine the price. This is not like taxis and public...
transport where we advise a maximum price. We actually
determine the price and we determine that price to cover
Sydney Water's costs of doing business and the cost of
abiding by government regulations and the like, so that is
what we are on about.

Obviously they will make a surplus of which they pay
about 70 per cent in dividends to the treasury. If the
government wants to say, 'Well, okay, Sydney Water, just
do not pay 50 per cent dividends. Spend the other 20 per cent on
liveable cities', that is up to the government. It is not
to participate in IPART.

There is a reason for this, because as Chairman, I'm
pretty keen on animals, I could just slip in that Sydney
Water should jack the price up in order to protect
wildlife. But other people in Sydney might not think that
is such a great idea, especially people who are struggling
to pay their bill, and that is why we have a democratic
process. So it is up to me to get the environmental
regulations changed.

MR WILLET: That's you personally, Peter, not as Chairman
of the tribunal.

THE CHAIRMAN: Yes, that's me personally, thank you, and
I hope that has been recorded. Thanks, Cynthia. Stephen?

MR SUMMERHAYES: Why doesn't the cost of business
include achieving its objectives under the Act?

THE CHAIRMAN: It does.

MR SUMMERHAYES: Exhibiting a sense of social
responsibility, protecting the environment and all those
things can fit broadly within these elements. So the full
cost pricing - what I erroneously called externalities -
can definitely be captured within that.

THE CHAIRMAN: And the cost of Sydney Water being able
to abide by the various environmental regulations is in there.

MR SUMMERHAYES: There is a specific obligation or an aim
under section 27(1) which says that the corporation is to
adopt as an ultimate aim the prevention of all dry weather
discharge of sewage to waters including from ocean
outfalls. How is that being addressed?

I have not mentioned this before but in our price
submission, there is $750 million capital for environment
projects that we are pushing forward on. Some of that is
on brand new work that we are doing at Winmalee to minimise
nutrients going into the Hawkesbury-Nepean because we
want to do more work there. The others are just complete
maintenance and upgrade of our plants.

There is an incredible amount of money on the table
for that. We do see that our future is all the work we are
doing with customers and our social responsibility. We are
out there. You can see that with sponsorships and we were
dealing with the community and talking about issues. So
we are there.

The question about seeing ourselves as having a higher
purpose, which we do, is because we want to start the
debate. We want to be leaders in that and have this, as
I said before, collaboration into really getting the
community and the government behind that issue about
liveability and drive a compelling case. That is what we
see and if we make that compelling case in conjunction with
others, we will take something to government and we will
take something to IPART, so we are 100 per cent behind it.

MR SUMMERHAYES: Great. I am just looking at ways we can
justify maximising those environmental outcomes. You do
some great things in the Cooks River and all the
catchments. You have investment plans for future
naturalisation projects which are outstanding to maximise
the environmental outcomes for the community, for their
children and also for your business. So we are supporting
the very business model which you promoting.

THE CHAIRMAN: Thanks, Stephen. One advantage of this
session is that one can talk about this in the next
session, so what we can do now is move on.

MR YOUNG: We talk about it in every session.

THE CHAIRMAN: We can move on to the next session and then resume discussions. This is session 3, which is water and waste water charges and Justin Robinson from the secretariat will introduce it.

SESSION 3: WATER AND WASTEWATER CHARGES

MR ROBINSON: Thank you, Mr Chairman. This session covers the water usage charge, the treatment and charges for waste water discharge and rebasing water and wastewater service charges.

The first topic of discussion is the water usage charge. The current water usage charge is set at $2.29 per kilolitre. With customer's bills falling, Sydney Water has proposed reducing this to $1.97 per kilolitre, also having regard to their research on customer preferences, which was shown on the slide in the top left-hand corner.

Sydney Water's proposed water usage charge is in line with our estimate of the long run marginal cost. In our issues paper we estimated about $1.20 per kilolitre. Generally, we consider the long run marginal cost when setting the usage price as it signals to customers how much in water consumed will cost in the long run.

However, most stakeholders argued to maintain a higher usage price to increase control of bills and to encourage customers to conserve water. We were open to this option but we note that a water usage charge higher than long run marginal cost can mean that customers pay too much for water use and encourage customers to over-invest in water conservation measures.

Sydney Water also proposed a water usage charge pass-through, which Leigh has brought up already today, for its desalination costs. This means that if SDP is activated, according to our estimate, usage prices would increase by about 13 cents per kilolitre rather than passing through all the additional desalination costs to the service charge as Sydney Water is currently allowed to do. The usage cost pass-through was supported by us in the issues paper and by most stakeholders.

Our next topic is the wastewater usage charge. At the moment around 2 per cent of Sydney Water's customers or 40,000 non-residential customers that discharge more than 300 kilolitres of wastewater per year pay $1.10 for every kilolitre of wastewater beyond the discharge allowance that can discharge into Sydney Water's wastewater network.

In our issues paper, we proposed that the discharge allowance should be reduced to 150 kilolitres per year to remove potential cost subsidies. If this proposal is implemented, about 10,000 more non-residential customers would pay a wastewater usage charge.

As an alternative, we also asked whether a wastewater usage charge should apply to all residential and non-residential customers. Most stakeholders, including most individuals that made submissions, supported applying a wastewater usage charge to all customers.

On this slide you can see a graph. We have tried to graph an estimated distribution of residential discharge to demonstrate the potential impact of a wastewater usage charge on residential customers.

While introducing a wastewater usage charge can increase control of bills for residential customers, it does not necessarily mean that these customers would face lower bills. Most residential customers would see their wastewater bill fall; however, those discharging above the average, which is a significant number, would see an overall increase in their wastewater bill.

Sydney Water supported our proposal to reduce the discharge allowance to 150 kilolitres a year. However, Sydney Water does not support applying a wastewater usage charge to residential customers. That has not been broadly consulted on and as discharges are omitted, there may be difficulties estimating wastewater discharges from residential customers.

While most stakeholders have a preference for charging all customers a wastewater discharge charge, it was generally supported that our proposed 150 kilolitre discharge allowance is more appropriate than the existing 300 kilolitre allowance, highlighting that average residential discharge is about 150 kilolitres.
The next topic of discussion is Sydney Water's proposal to rebase water and wastewater service charges. Sydney Water has proposed the change to its price structure to simplify bills and to correct a pricing anomaly between 20mm non-residential customers.

As you can see on the slide, currently non-residential customers with a 20mm stand-alone connection are charged the same as a residential charge. However an otherwise identical customer with a shared or multiple 20mm connection is charged on a different basis - that is, not the same as residential customers but on the same basis as non-residential customers.

As we can see, customers with identical connections can face very different charges. This is because residential and non-residential bills are set on different bases at the moment. Sydney Water has proposed that all service charges should be set on the same basis to correct this anomaly - that is, on a consistent 20mm meter. To ensure that all houses and apartments are still charged the same service charge, their charge would be based on a 20mm meter also.

While water and wastewater bills are proposed to fall for all of Sydney Water's customers these proposed change price structures would mean that residential customers face a smaller decrease to their bill than most non-residential customers. In our issues paper we supported this change as did most stakeholders. However, some stakeholders noted that they did not support changes that disadvantaged residential customers.

In the following discussion, we would like to hear from Sydney Water and from stakeholders on five key points:

1. Is Sydney Water's proposed $1.97 per kilolitre usage charge appropriate or should greater weight be given to long run marginal cost, or should we hold the usage charge constant at $2.29 for the price path?
2. Should the water charge vary if the Sydney desalination plant is activated?
3. Should the non-residential discharge allowance be reduced to 150 kilolitres or should all customers pay a wastewater usage charge?
4. Should service charges for non-residential customer be rebased to a 20mm meter equivalent?
5. Should service charges for non-residential wastewater usage charge?

In relation to the wastewater usage charges, we have said we are open to considering the issue but we don't think it is for this particular pricing determination. For residential customers we are happy to do the sort of
Mr Summerhayes: With those sorts of initiatives, we are happy to promote the community environment outcomes that those things may bring, so please draw upon us as an organisation of councils to promote those things.

We put together a position summary which synthesised our broader submission and I have handed out copies. The thrust of that, in this context, is that we advance a holistic sustainable urban water management approach. In that regard in relation to the reduction of price - that is what I mentioned firstly - we are concerned that it can result in unintended consequences in relation to councils' initiatives in relation to the value of water, which is the very resource that we are looking at keeping and sustaining.

The Chairman: Thanks, Stephen. Any other people around the table? Cynthia?

Ms Mitchell: The Institute for Sustainable Futures has a long history of promoting the wise use of water around demand management, water conservation and so forth. From that perspective we would support a water usage charge that helps customers to retain a focus on using water wisely, however that makes sense for them, and however that makes sense for them speaks to that question as to what's appropriate as a wastewater usage charge. It is as yet technologically difficult on a large scale to determine what goes down the sewer. At this point I don't think we are ready for a wastewater usage charge on residential customers because of the sorts of issues that Kevin raised.

There are many ways that people can choose to use of water within the bounds of their properties but we are not quite ready do that in away that looks after all the issues, I think.

The Chairman: Thanks, Cynthia. Leigh, and then Kristal.

Mr Martin: Twice in one day I find myself on a unity ticket with Kevin - make that one for the books - but I am going to disagree with some of Kevin's remarks, so balance will be resumed.

Mr Willett: Normal service

Mr Martin: Normal service will be resumed, indeed.
In terms of price structures and billing, for us the most pressing issue is that current arrangements mean that customers do not have a great degree of control over the size of their bills and that diminishes the resource conservation signal.

Ultimately we are talking about water prices, wastewater prices and stormwater prices, but customers receive one bill with one number on it that they have to pay. At present, their ability to modify the size of that bill by changing their behaviour and investing in things that make their homes more efficient is limited. I would like to see a much greater reliance on volumetric pricing and concomitant reduction in fixed charges.

I would be very concerned if we moved to a long run marginal cost of $1.12 to $1.24 per kilolitres because there is a very strong possibility that that would see customers increasing their water use particularly as we are leading into a situation where we may have a shortage of water over the next few years, so we believe that that would be an undesirable situation.

The issue then is also the current levels of fixed charges in terms of stormwater and sewerage prices. We have supported volumetric pricing for wastewater services in the Hunter in the past and it is our argument that it would be a better arrangement to have that for Sydney as well. Except that there are difficulties with that and it is not a perfect arrangement.

Having a discharge factor such as Hunter Water used to have sitting at 50 per cent or some other level, I accept is not a perfect system, but I do believe it is better than what we currently have which is a system where customers do not have an adequate degree of control over their bill for or for saving water.

Also it is not just about saving water. There are costs associated to the environment and financial costs with dealing with wastewater that are directly proportionate to the amount of water that has to be treated. So having a volumetric price for sewerage services would be reflective of that as well.

THE CHAIRMAN: Thank you very much, Leigh. Kristal?

MS BURRY: We support the usage charges set on $1.95 or around that given that that is what customers are preferring and it does give them greater control over their bills. Despite the fact that we are all pro saving for consumers, we obviously respect that that is the choice they want to make and we agree it sends appropriate messages to them. We would like to be involved in any discussions about how wastewater service charges may change and allow for greater flexibility. That's all I wished to say.

THE CHAIRMAN: Thank you very much, Kristal. Richard and then Benn.

MR McMANUS: My one comment would be if Sydney Water did keep the water usage charges at $2.29, then they would be collecting a lot more revenue.

MR YOUNG: No, it would be that we would get a smaller fixed charge.

MR McMANUS: A smaller fixed charge, but if there was any extra revenue that was actually raised from the service charges themselves, it is a question of just where that money would actually be spent and making sure that there is again clear transparency about where that money is actually being spent. I think potentially having a higher usage charge would give a signal to people about how they spend their money and how they use their water as well. Again going into drought in the future some people might say, 'I can actually use my water in freer ways', therefore, they totally use their water or have a higher water consumption.

THE CHAIRMAN: Thank you, Richard. Benn?

MR TREHARNE: My question is around recycling of wastewater. I think most people in the room would know there are benefits to recycling wastewater in the savings to total water but also the discharges from treatment plants to waterways. My question is to Sydney Water, I guess: What incentive is there in the price proposal for greater recycling of wastewater, if any?

MR YOUNG: That goes to the heart of the matter. I think developer charges are set at zero, Mr Chairman, but not for recycled water. There are still developer charges for
reused water. The way it works at the moment is when we
look in a holistic sense over a scheme for an area, if, by
putting a recycled water scheme in, it means that we do not
have to invest in higher levels of wastewater treatment set
by the EPA or it does provide major savings, then the
present arrangement that IPART has in place is that we can
factor in those offsets into the recycled water schemes,
and that has happened in the past.

I know of a good number of examples where we might
have discussions with the EPA and they will say, "If you
discharge it into the river, you need these incredibly high
levels of treatment. However if you were to recycle on
land and use the nutrients on golf courses and the like,
then we can accept lower levels of treatment." There is a
mechanism to allow offsets for savings in the water and the
wastewater and for part of the recycled water costs to go
to those customers. However this requires IPART and the
community to have a really prudent review of those costs to
make sure that we are getting the right split and balance
costs. That is generally how it works at the moment.

MR FUNSTON: I am sure IPART will reflect on this, but
recycled water is actually covered by a separate
determination that was made in 2006. It is not actually
covered by this particular determination unless there were
costs being allocated to the wastewater or potential
stormwater or water.

THE CHAIRMAN: Matt will just say a few words.

MR EDGERTON: This is just to elaborate on what Kevin and
Kris said. As Kris mentioned, we do have a separate
determination process for recycled water. However the link
is what Kevin mentioned. If there are avoided water and
wastewater costs associated with a recycled water scheme
and IPART reviews and approves those avoided costs, then
those avoided costs can essentially be added to the water
and/or wastewater cost base and be recovered through water
and/or wastewater charges depending on whether they avoid
water costs or wastewater costs.

MR TREHARNE: And those separate costs for recycled water
are they lower than for water? Is there an incentive
there?

MR EDGERTON: As in terms of the recycled water prices?

MR Treharne: Yes. So why would an industry or a golf
course use recycled water over potable water?

MR EDGERTON: We distinguish between mandated recycled
water schemes and voluntary schemes. Voluntary schemes we
regulate in quite a light-handed way because they are
essentially an agreement between two parties though we do
have pricing principles. In the mandated schemes, my
understanding is the water usage price is generally lower
than the potable water price.

MR McManus: It is 80 per cent of the water price; is that
correct? Would that send a signal to recycled water
schemes that they would be collecting less water and,
therefore, they may not be as viable if they have a lower
water price?

MR EDGERTON: It is also, I guess, an incentive to users
of the scheme to use recycled water.

MR ROBINSON: There is allowance for a fixed charge to
recover costs as well. So if the usage was not enough to
cover the costs of Sydney Water - you do not have to do
so, but Hunter Water does - a fixed charge can be charged
as well.

MR FUNSTON: There is actually a developer charge. That
is actually the basis for the cost recovery with the usage
charge. I would state that we do have some concerns around
the existing recycled water determination because we think
it is slightly outdated. It was probably fit for purpose
at the time, but I think things have moved since that time.
Obviously that's a discussion for another day.

MR YOUNG: There is a broader issue here about the
question of recycled water having to be less than the cost
of potable water. What is true for a lot of industries
that use recycled water - boiler feed, for example - is
that they do not use recycled water. They use drinking
water and then they generally pay for demineralisation and
reverse osmosis at an incredible cost to get it to a level
that they need for industry. Recycled water can be
tailor-made to produce that higher quality product and
better than drinking water that meets their needs, so those
are substantial savings.

10/11/2015 64 SYDNEY WATER
Transcript produced by DTI

10/11/2015 65 SYDNEY WATER
Transcript produced by DTI
If you look at some of the examples across America recycled water for boiler feed is sold at twice the price of drinking water because it is a much more superior product that suits the industry and they make substantial savings. We have to get the commercials right here as well.

MS MITCHELL: This discussion does speak to that issue of integration across all of the different kinds of products. I understand that we are limited today and we are talking about three particular product streams, but recycled water in all its variations, and where it makes sense to invest in recycled water infrastructure, and who should invest in that and how that should be --

MR YOUNG: Integrated, exactly.

MS MITCHELL: To be forced to consider these in separate ways seems to run the significant risk of making actually inefficient investments down the track.

THE CHAIRMAN: Thanks, Cynthia. Cathy?

MS COLE: I will speak only on the water usage side. I think many of us around the table are of the same view that, yes, the water usage price is really important in return for retaining the water conservation signal. While the long run marginal cost is a useful indicator and it provides a signal in terms of future investment for water security, it is certainly not the only consideration. Some of those other things like customer control over bills and avoiding price volatility are certainly really important. Your second question was about:

Should the water usage charge vary if the Sydney Desalination Plant is activated?

I think again that price signal in water scarcity, in times of drought, as a pass-through mechanism reflected in the usage price is good in support of that water conservation signal as well. So we would support that second question.

THE CHAIRMAN: Thanks, Cathy. Sarah?

MS CLIFT: As a broader concept, Kevin mentioned before the beaches and I was just thinking about what has been achieved in the 1980s and 1990s around the beaches in terms of establishing that Northside Storage Tunnel and putting in a lot of infrastructure to improve the quality of the water there. Obviously in terms of, I guess, the catchment groups we are trying to pull that quality further west along through the catchments where there is a major population boom, major growth happening and major development. Certainly the idea of that volumetric charge needs to reflect that.

One of the core issues to making a river swimmable is when it comes to managing overflows and leakages. I am aware that one of those issues is obviously a volume issue, if volume goes down in terms of wet weather overflows and things like that. That was just a general perspective.

THE CHAIRMAN: Thanks, Sarah.

MR SUMMERHAYES: Might I say one more thing?

THE CHAIRMAN: Sure, Stephen.

MR SUMMERHAYES: A lot of conclusions made and the outcomes depend on the informed community engagement. I would like to quote a sentence from the report that I quoted from earlier:

So when customers understand where their water is coming from, the full range of assets that need to be managed to make the tap turn on, they will understand the financial need [for a rate increase in this case] and more support will be generated for community water systems.

So customer feedback always will depend fundamentally on the information provided to them to make an informed decision as to where they think the pricing should best lie.

THE CHAIRMAN: Thanks. Are there any questions or comments from the floor on this one? Matt?

MR EDGERTON: I have a question for Sydney Water. When Justin was doing his presentation, he had up on the screen, essentially a snapshot from your submission where you...
showed that at about $1.97 there was a big increase in the
total graph in terms of community acceptance. There was also
a big peak at $2.60 - in fact, I think it might have even
been a bit higher than $1.97.

MR YOUNG: Also there was a bit of a peak lower.

MR EDGERTON: True, yes, at $1.20.

MS GAMBLE: There are three types of people.

MR YOUNG: Yes, you have three types of people there.

MR EDGERTON: I guess given the peak at $2.60, did you
think about proposing to maintain the usage price at
current levels of around the $2.29 mark?

MR FUNSTON: I think that has been acknowledged. What we
were trying to do was obviously look at how we balanced the
usage charge with the service charge. One of the concerns
here was that if we actually left the usage price really
high, the service charge would go down. Then the issue
was, in the future, if the price was based on the long run
marginal cost with the usage charge, we would end up with
the potential situation where the service charge would have
go up a large amount.

One of the concerns we do have around the $1.25 that
is being proposed is that that would lead to a tripling of
the service charge - not quite but almost a tripling of the
service charge. What we were trying to do was balance a
number of things. We were trying to balance how do we
actually give the bill reduction to customers, because we
could see our costs were coming down. We looked at where
our long run marginal costs estimates were coming. We had
a different model which was yielding a bigger range in
terms of the estimates. I think it was between around the
90 cent mark to the $3.10 mark.

Then we also overlaid that with what was happening in
terms of the service charge reduction for wastewater
customers and then also looked at what the customer
preference was. It was a fairly nuanced approach that we
took, but what we tried to take into account was the
concerns that IPART raised around the long run marginal
cost and wanting something that provides that appropriate
signal.

THE CHAIRMAN: Thank you, Kurt. Would anybody else wish
to make a further comments or ask questions on water and
wastewater charges? Kristal?

MS BURRY: Just speaking to that, is there any potential
that recycled water could be brought under the same price
determination? What was the general theory behind keeping
them separate?

MR EDGERTON: To respond to that but also partly to Kurt’s
question, recycled water avoided costs are recognised in
the current framework. They are recognised in this price
review to the extent that any avoided costs associated with
a recycled water scheme that Sydney Water proposes and
IPART ticks off will be basically added to the water cost
base or the wastewater cost base and recovered through those prices, so there is some connection there.

MS MURAS: Heidi Muras from Sydney Water. I am not sure that people understand that regulated water prices are not regulated in the same way. Perhaps you could explain that, Matt.

MR EDGERTON: As I mentioned before, we distinguish between mandated schemes and voluntary schemes. A voluntary scheme could be between Sydney Water and, for example, a large industrial customer. It might be that case where the industrial customer, for example, required actually that higher quality water that Kevin alluded to.

We have a relatively hands-off role there. We do not regulate the price or we specify pricing principles but we do not get too involved.

Then there are the mandated schemes where we have taken a relatively light-handed approach relative to what we do with water and wastewater prices. The recycled water price is about 75 to 80 per cent of the potable water price. As we mentioned before, while water and wastewater developer charges are set to zero, there are currently recycled water developer charges in place that can be levied according to the methodology that we determine.

MS MITCHELL: I appreciate that there is a mechanism in place for avoided cost recovery when it comes to recycled water plants. My understanding is that that mechanism is hard to activate in practice. We actually have a quote in our submission that relates to Sydney Water’s experience at Rouse Hill. It comes from a Sydney Water document and it was about IPART rejecting estimates for a water cost that came from Sydney Water. Sydney Water said:

We have no confidence in IPART’s regulatory framework for recycled water avoided costs.

I also note that the way that avoided costs are typically assessed is in relation to the very large expenditure. What we are talking about is unit investments on the scale of the desal plant. When we are talking about recycled water investments, they are likely to be of a much smaller scale. So taken on an individual basis, they are easily lost in the margins. It is only when we look at recycled water schemes on an aggregate basis, at a larger number of the smaller volume schemes, if you like, that the avoided costs start to actually have significance.

We have proven with our work in Melbourne for all four of the metro utilities there that actually there are significant avoided costs, but there is no mechanism, as I understand it here, for that to come through in the Sydney situation. So, yes, there is technically a mechanism, but I think there is a question as to whether it is delivering the outcomes that we all say we would like to see.

MR EDGERTON: With avoided costs, like any expenditure Sydney Water has proposed, we obviously have to go through the process of scrutinising it. We want to make sure that where it is prudent and efficient avoided costs are recognised and that prudent and efficient recycled water schemes do get off the ground or are not penalised. At the same time we also do not want to encourage any inefficient investment or over-investment in schemes that all customers would then have to pay for.

On the other side of the equation, today there has been a lot of discussion about liveable cities and the community’s acceptance of liveable cities. There is obviously an ability for that to be reflected through customers’ willingness to pay for recycled water schemes. We essentially allow the avoided costs of recycled water schemes to be recovered from all other water and wastewater customers. Any residual revenue requirement would basically be reflected through customers’ willingness to pay for those schemes.

MS MITCHELL: As I said, I believe there is a mechanism in place. I believe there are questions, and I am quoting from a Sydney Water document, which question that mechanism and its ability to deliver. I note again there is a current Marsden Jacobs study which looks at customers’ willingness to pay for recycled water provision across Sydney.

Some people may know I am not often a fan of willingness to pay studies because I think it is easy to skew such studies. I think this study is actually a very defensible study. The numbers of people involved in the study were significant, so I think the numbers are credible. It says it is somewhere between $2 and $40 per
annum, and that is for recycled water to be provided to
drastically others - not to themselves but for the benefit of others.
for recycled water schemes and I think there are questions
about the validity of the current mechanisms for recovering
the water costs.

MR FUNSTON: Can I say that I am not quite sure where that
quote comes from. Obviously we take responsibility for
what is in there, and I am not sure that I would have
written that --

MR YOUNG: I expect it may be well before our time.

MS MITCHELL: 2012.

MR FUNSTON: That is before my time, and that is all
right. I think there are some issues with the recycled
water development charge determination as it stands in
2006. I think in relation to the issue of avoided costs
there are ways that Sydney Water can de-risk that process.
I am not sure that we necessarily in the past always
explored those in terms of the information we provided to
IPART. I think it comes back to our responsibility to
actually highlight that this is, as IPART has highlighted,
the lowest cost solution for society because ultimately
that is what the determination should be driving. To the
extent that is the most efficient way to actually deliver
the service, we should be incentivised to do that. I think
we take on board the comment. We are not sort of shying
away from the fact we might have said that in the past.
I think there is a little bit of self-help that we need to
do in order to ensure that these avoided costs do get
recovered and I am not sure that we necessarily have done
that work in the past as well as we could have.

MR YOUNG: My comment on that is that previously in
Hunter Water, we did put a lot of recycled schemes and we did
present a case to IPART on the avoided costs for the water
and the wastewater. We presented a strong case and it was
accepted. I know Sydney Water has not been as successful
and I do not know the background for why that is so, but
certainly I think if you do present a cogent argument and
discuss with regulators and present the alternatives, you
can make a strong case. I think there is potential there,
in my experience.

THE CHAIRMAN: Thank you. Let us move on to the next item
on the agenda, which is session four - stormwater and other
charges. I am going to ask Jessica Boddington from the
secretariat to introduce the session. Following Jessica's
presentation, I will ask Michael Mobbs, who is in the
audience, to make a short comment or statement and then we
will move to general discussion. Thank you, Jessica.

SESSION 4: STORMWATER AND OTHER CHARGES

MS BODDINGTON: Good afternoon. This session will cover
stormwater charges, the Rouse Hill land charge and
miscellaneous charges. Sydney Water has proposed reducing
stormwater charges by 2.9 per cent per year in each year of
the upcoming period with no change to the existing price
structure. This would lead to an over-recovery of its
expenses over the next four years. Sydney Water has
proposed this over-recovery in order to lessen further bill
shocks, given that it anticipates stormwater costs will
increase significantly from 2020.

With regard to Rouse Hill, Sydney Water has proposed
to maintain the land charge at approximately $250 per year
in real terms over the upcoming period. This charge was
set to recover the costs of purchasing 11 hectares of land.
Given that Sydney Water now estimates 19 hectares are
required, it has proposed to allocate a remaining
$17.1 million in costs to the wastewater RAB. This means
that the costs will be recovered by all wastewater
customers.

Sydney Water levies miscellaneous and ancillary
service charges for a number of non-contestable once-off
services. There are currently 45 of these services, 28 of
which attract a charge. Sydney Water has proposed most
charges be maintained in real terms over the upcoming
period.

In addition, Sydney Water wants to introduce a number
of new charges from 2016 including:

- A late fee set at $4.10 or interest, whichever is the
greater;
- A credit card fee of 0.4 per cent;
- A remote meter reading service with related charges
for properties with inaccessible meters; and
- A hot water meter reading service for multilevel

.10/11/2015  72  SYDNEY WATER
Transcript produced by DTI
individually metered properties.
Sydney Water prefers that the latter service be unregulated. In addition, it has proposed to change property sewerage diagrams to an unregulated service in 2016.

In our issues paper we said we would consider Sydney Water’s stormwater proposals. We also queried whether the transition towards greater area-based charging for stormwater was complete.

Regarding the Rouse Hill land charge, our preliminary position was that if the costs are not borne fully by new residents to Rouse Hill, Sydney Water should bear those costs. Those costs should not be passed through to all wastewater customers given that customers would already contribute significantly to the stormwater system under Sydney Water’s proposal.

With respect to miscellaneous charges, we said that under its customer contract Sydney Water can charge a late fee that has been specified by IPART. We intend to review the cost reflectivity and terms and conditions around this late payment fee noting that Sydney Water intends to apply the same exclusions as are contained in the National Energy Consumer Framework - the NECF - with additional provisions. We also intend to review Sydney Water’s dishonoured or declined payment fee. In addition, we will consider Sydney Water’s proposal for the other unregulated services.

Sydney Water did not support a move towards area-based charges for stormwater. In contrast some other stakeholders did support area-reflective charges. Stakeholders were generally not supportive of the proposal to over-recover stormwater costs preferring that expenditure and stormwater match the revenue collected.

Stakeholders were supportive of Sydney Water’s proposed late payment fee and accompanying exemptions. There was suggestion that the credit card fee should be subject to similar hardship protections as the late fee.

Sydney Water maintained its position that the $17.1 million in additional land costs for Rouse Hill should be allocated to the wastewater RAB. Sydney Water premised this on the basis that the land was purchased for both stormwater and wastewater purposes reflecting the integrated nature of the water management system in Rouse Hill.

Here are five points to facilitate discussion:

Should Sydney Water over-recover stormwater expenses to reduce bill shock in the next price path?
Should stormwater charges transition further towards strict area-based charges or include a low impact charge for residential customers?
Who should pay the additional costs of land acquisition for the stormwater drainage system in Rouse Hill?
Are Sydney Water’s proposed late payment fee and exemptions reasonable?
Do stakeholders have any comments on Sydney Water’s other miscellaneous and ancillary charges?

THE CHAIRMAN: Thank you very much, Jessica. Questions, comments from around the table? I am sorry, Michael, you are next.

PRESENTATION BY MR MICHAEL MOBBS

MR MOBBS: Thank you, tribunal members, for letting me speak to you today and I acknowledge everybody in the room and at the table. I have a pricing request. I have a company or a business called Sustainable Projects and I design and build sustainable subdivisions, offices and units. The information I am using to make these submissions today comes from that work.

I am asking that the tribunal provide a nil stormwater charge for properties that do not discharge any stormwater from their site. The wording in the determination, to bring that to ground, would be that where a property is not connected to Sydney Water, then it is automatically exempted from the stormwater charge.

It does not require much sophistry to come to an explanation for that. If you are not connected to Sydney Water, you are most likely to be getting the water that falls on your land from the sky, so you would be wanting to store that and keep it.

I would now like to tell you a couple of stories. In 1998 and 1987, a metre of water went through the CBD of...
I was asked to review the performance of the trust for the Upper Parramatta and Premier Nick Greiner created the Upper Parramatta River Catchment Trust because the four council which shared the catchment in Sydney Water were independently deciding and shoving the water downstream so that it ended up in Parramatta.

I would like the tribunal, when it listens to me and I think about this, to think about the water that runs down the gutters of our cities and is wasted. Someone is responsible for that. I suggest that part of the responsibility lies with the pricing decisions of the tribunal as well as the regulatory arrangements and the duplication in the catchments.

Other than that, I wish you well. I would like to just pass up a summary to go with the written submission I have made. Again I am delighted to have had the opportunity to whinge to you today about my experiences.

THE CHAIRMAN: Thank you.

MR MOBBS: Thank you, tribunal members. I'll go back and get out of these fancy clothes and put on some workboots and try and keep some stormwater.

Can I just say finally that Sydney is six to eight degrees hotter because of black roads and lack of tree cover. This stormwater system that will go outside this property is intended to increase the canopy and height of a tree and cool the street.

Elsewhere in the institutional framework, the state government has given a grant to my company to cool this street and trees are one of the most effective ways of cooling streets and, in turn, cities and, in turn, reducing aircon.

I agree with Cynthia Mitchell that all these things are connected and to isolate them in some theoretical way does not do justice to the difficulties that we face in this city. Thank you.

THE CHAIRMAN: Thank you very much, Michael. Now, are there questions or comments on this session from around the table? This is stormwater and other charges.

MR YOUNG: Mr Chairman, could I comment on what Michael said or do you want to go round the table first?

THE CHAIRMAN: I would be happy for you to comment on that now and then we can go around the table.

MR YOUNG: I think Michael should be congratulated on the work he does. He is really pushing the envelope in decentralised systems. This is a bit of a discussion in which I am sure we will get into liveability again.
Can I just start by giving a bit of a context. We have a statutory obligation which is to maintain generally existing major concrete drainage systems within a catchment area. That means that we go through and we take out litter and trash. We maintain the grassed areas on the side. We make sure it is structurally sound and we invest.

I think the first thing that IPART does is they look at the duties that we have under our obligations to see whether the money that we are spending is prudent and efficient and that equals a certain amount of money. I think that one part of this process is for you to determine that amount of money for our statutory obligations.

The second part is IPART has to decide if that is the amount of money for the obligations how do we fairly and equitably split that up? I think that is the question that Michael is saying.

MR YOUNG: No problems. I just wanted to give that context of the two elements in there.

MR McMANUS: I have a couple of comments and probably also a question to Sydney Water as well. Over the past 10 years or so there has been a significant increase in prices for some residential and non-residential customers of Sydney Water on a stormwater service charge to the point that it sort of increased from $25 for a single residential property in 2006 and now it is around about $85 or so. Again that will actually decrease, but there has been a significant increase.

For some non-residential properties, IPART actually, in the last price determination in 2012, increased quite significantly some of the non-residential properties, the very large non-residential properties - some acknowledgment of the impact those properties actually have on the stormwater system itself. The interpretation by Sydney Water was both in terms of it has a stormwater quantity impact - so flooding impact - plus also a stormwater quality impact as well, and the need to look at services to cover some of the costs incurred by Sydney Water in managing their assets.

There has been a bit of a disparity between the amount of money Sydney Water has collected over that period and the amount of money they have actually spent. With the revenue and the expenditure, I think there has been a bit of a bubble between how much money Sydney Water has collected for stormwater charges and actually spends on stormwater service. I think what is proposed by Sydney Water in the current round goes to some extent towards bridging that gap to bring the expenditure close to the revenue that is actually proposed.

I also note, and I want to say on a positive note, it is good to see Sydney Water has actually gone beyond in its pricing. In the past it has simply been looking at how Sydney Water looks at just maintaining the assets and renewal of those assets, but the pricing has been broadened out to include not just renewal of all those assets but also looking at waterway health, which we see as a very important initiative. So of that $18 million, or 13 per cent of the revenue, will be spent on waterway health initiatives. There is also money set aside for flood risk, so there are three components of the expenditure which StormwaterNSW think is very good and we fully support action under that proposal.

We have indicative support from 15 councils, who are part of our members as well, that have actually supported this charge and have said it is quite good. In further submissions to IPART’s determination, we shall be seeking formal support from those organisations to support our submission on the waterway health charges as well as numerous consultants and people within the industry itself.

The revenue raised - $4.5 million on waterway health - goes some way to matching what councils themselves are spending. Large councils in Sydney might be raising $3.5 million. Hornsby Council, Blacktown Council, the City of Sydney have raised between $2.5 million to $3 million on waterway health initiatives.

They also spend other recurrent funds on other activities in the same way that Sydney Water will be spending money on flooding activities. In some ways it is Sydney Water catching up with the councils and some of the other waterway managers within the catchment. As Michael
said, there is a large issue about institutional
arrangements for stormwater management across Sydney.
There is not actually a coordination that goes towards how
that money between councils and those activities of
councils is actually managed.

Hopefully, some of the money from Sydney Water can be
used to work with councils and go beyond what Sydney Water
is actually spending its monies on to work with council to
build the capacity for councils, so again we fully support
the revenue raised.

The one question I suppose we do have is how again
there is this gap were Sydney Water will be raising between
$120 to $130 million over the next four years in terms of
stormwater charges, but will only be expending
$103 million. There is still a gap of around about $20 to
$30 million approximately - again ballpark figures - that
is not really accounted for. We would like to see some
greater transparency about exactly where that money goes
and probably the question to Sydney Water is where that
other $20 million of revenue will go to. If it is not
spent on stormwater, then how is it actually spent, if it
is raised for stormwater activities?

THE CHAIRMAN: So do you support raising the expenditure
to $120 or reducing the revenue to $103?

MR McMANUS: I would fully support raising the expenditure
to match the revenue that is spent if that is spent on the
waterway activities - waterway health activities or other
amplification - or bringing forward some of the issues that
you have identified, namely, that in the future stormwater
charges will actually increase significantly.

MR YOUNG: I'm not sure, Mr Chairman, but it may go to the
heart of IPART's approach with the building block. Your
building block just does not include the capital and the
operating. It actually goes to the RAB and the stormwater
and --

THE CHAIRMAN: It does.

MR YOUNG: So I'm just trying to pick up the issue there.
It could be that --

THE CHAIRMAN: The issue here is that your pricing
proposal over-recovers.

MR YOUNG: Yes, and I am wondering whether - I would take
this on notice and we need to look at it thoroughly because
there is no mechanism I think for IPART to say we are
looking to over-recover the difference. I know as part of
your building block that we get all the operating costs, we
get depreciation, we get a rate of return to cover
efficiencies of capital and when the building block comes
together, that equals cost. I suspect that there may be
the discussion of the amount that we are getting in terms
of the WACC to answer that.

MR EDGERTON: My understanding, and Kris might correct
me if I'm wrong, is that Sydney Water is proposing to
over-recover stormwater costs for this upcoming price
period of four years,

MR FUNSTON: Right.

MR EDGERTON: Because it sees a large amount of stormwater
expenditure over the next eight years, so it is a way of
smoothing that expenditure over an eight-year period, and
you are proposing to over-recover for the next four years.

MR FUNSTON: That's right, and what we were actually
seeing, when we were doing the analysis based on our
projection going forward, was that obviously with the low
cost of capital at the moment it did mean that that price
would actually go down significantly in terms of service
charge. The challenge would be if we had a combination of
the two things - let's say, we are working in the low
interest rate environment going forward but we also have
this major expenditure being approved going forward, then
we would be in a situation where there would be a very
large increase in the stormwater service charge. It was a
way of trying to actually minimise that potential large
increase.

I think the issue has been raised that there have been
previously large increases. It was not the idea that we
were taking this money and banking it; it was the idea that
we were looking at a longer term horizon over which the
expected NPV equals to zero over the price path.

The reason why we have proposed it for stormwater is
because the level of expenditure relative to obviously
wastewater and water was relatively modest, but we also accept that the tribunal may not be in a position to be able to do this given the way the building block operates. We have really put forward that proposal taking those factors into account.

THE CHAIRMAN: Thanks, Kris. Is there anything else, Richard?

MR MC MANUS: Can I acknowledge that, but I suppose it is about just actually making sure because the stormwater submission within the proposed price path was quite short. It was about having the full accountability around that as well.

THE CHAIRMAN: Thank you, Peter. I want to start by saying about the necessity for Sydney Water to work cleverly with councils who are also investing significantly in this space. I note that this conversation raises again real questions about how we do the best job we can of working out where it makes sense to invest in the system and how to distribute the costs and benefits accordingly. I think that issue really is what is at the core of the discussions that we have had today around the current regulatory framework that we are operating within and whether it serves us all well in the long term.

MS BURRY: I agree with both comments. If there is going to be over-recovering, we would like to see detailed information on how that is going to be spent to make sure it is an efficient use of that money. Obviously there are some further issues that will come up and we would like to be involved in those discussions.

THE CHAIRMAN: A 100 per cent rebate, which is what Mr Mobbs wants?

MR MARTIN: Perhaps not 100 per cent because I do recognise that customers even who are not contributing to the stormwater system derive some benefit from a stormwater system being in place. But where customers are reducing their impact, I think they should be recognised in pricing arrangements.

THE CHAIRMAN: Thanks, very much Leigh. On stormwater, Cynthia, then Kristal.

MS MITCHELL: I endorse in fact everything that Leigh has just talked about and I endorse also Richard’s comments about the necessity for Sydney Water to work cleverly with councils who are also investing significantly in this space. I note that this conversation raises again real questions about how we do the best job we can of working out where it makes sense to invest in the system and how to distribute the costs and benefits accordingly. I think that issue really is what is at the core of the discussions that we have had today around the current regulatory framework that we are operating within and whether it serves us all well in the long term.

MS BURRY: I agree with both comments. If there is going to be over-recovering, we would like to see detailed information on how that is going to be spent to make sure it is an efficient use of that money. Obviously there are some further issues that will come up and we would like to be involved in those discussions.

THE CHAIRMAN: Thanks, Kris. Is there anything else, Richard?

MR MC MANUS: Can I acknowledge that, but I suppose it is about just actually making sure because the stormwater submission within the proposed price path was quite short. It was about having the full accountability around that as well.

THE CHAIRMAN: Thank you, Peter. I want to start by saying about the necessity for Sydney Water to work cleverly with councils who are also investing significantly in this space. I note that this conversation raises again real questions about how we do the best job we can of working out where it makes sense to invest in the system and how to distribute the costs and benefits accordingly. I think that issue really is what is at the core of the discussions that we have had today around the current regulatory framework that we are operating within and whether it serves us all well in the long term.

MS BURRY: I agree with both comments. If there is going to be over-recovering, we would like to see detailed information on how that is going to be spent to make sure it is an efficient use of that money. Obviously there are some further issues that will come up and we would like to be involved in those discussions.

THE CHAIRMAN: A 100 per cent rebate, which is what Mr Mobbs wants?

MR MARTIN: Perhaps not 100 per cent because I do recognise that customers even who are not contributing to the stormwater system derive some benefit from a stormwater system being in place. But where customers are reducing their impact, I think they should be recognised in pricing arrangements.

THE CHAIRMAN: Thanks, very much Leigh. On stormwater, Cynthia, then Kristal.

MS MITCHELL: I endorse in fact everything that Leigh has just talked about and I endorse also Richard’s comments about the necessity for Sydney Water to work cleverly with councils who are also investing significantly in this space. I note that this conversation raises again real questions about how we do the best job we can of working out where it makes sense to invest in the system and how to distribute the costs and benefits accordingly. I think that issue really is what is at the core of the discussions that we have had today around the current regulatory framework that we are operating within and whether it serves us all well in the long term.

MS BURRY: I agree with both comments. If there is going to be over-recovering, we would like to see detailed information on how that is going to be spent to make sure it is an efficient use of that money. Obviously there are some further issues that will come up and we would like to be involved in those discussions.

THE CHAIRMAN: A 100 per cent rebate, which is what Mr Mobbs wants?

MR MARTIN: Perhaps not 100 per cent because I do recognise that customers even who are not contributing to the stormwater system derive some benefit from a stormwater system being in place. But where customers are reducing their impact, I think they should be recognised in pricing arrangements.

THE CHAIRMAN: Thanks, very much Leigh. On stormwater, Cynthia, then Kristal.

MS MITCHELL: I endorse in fact everything that Leigh has just talked about and I endorse also Richard’s comments about the necessity for Sydney Water to work cleverly with councils who are also investing significantly in this space. I note that this conversation raises again real questions about how we do the best job we can of working out where it makes sense to invest in the system and how to distribute the costs and benefits accordingly. I think that issue really is what is at the core of the discussions that we have had today around the current regulatory framework that we are operating within and whether it serves us all well in the long term.

MS BURRY: I agree with both comments. If there is going to be over-recovering, we would like to see detailed information on how that is going to be spent to make sure it is an efficient use of that money. Obviously there are some further issues that will come up and we would like to be involved in those discussions.

THE CHAIRMAN: A 100 per cent rebate, which is what Mr Mobbs wants?
THE CHAIRMAN: Sure. Yes, Stephen?

MR SUMMERHAYES: This is a common and just a general response to the proposal going to commonsense. Stormwater reduces substantial impacts to waterways, altering flows and introducing pollutants, and councils are dealing with that on a daily basis. In relation to managing stormwater we advance a shift away from the traditional approach of waterways as for the conveyance of water, but for stormwater in particular, to viewing them as systems. Therefore we champion an approach that reduces the impact of stormwater and enhances the system.

Indeed that is our vision as an organisation and we will work with Sydney Water towards that, if they would like to come and participate with us. Hopefully the mechanisms that you employ will facilitate those types of relationships.

THE CHAIRMAN: Thank you. Would anybody else like to speak? Benn?

MR TREHARNE: No.

MS COLE: No.

THE CHAIRMAN: Sarah?

MS CLIFT: Nothing Specific.

THE CHAIRMAN: Kevin?

MR YOUNG: That was a great debate. On the question with Michael on 100 per cent versus a discount comes to the question that he took a theoretical view of everyone installing, would there still be work left for Sydney Water to do particularly the work on the stormwater working with councils? I think the answer is, yes, there would be, so I think the question relates to a discount not 100 per cent. There is also the issue of how many houses would be able to put in a system that would retain all stormwater in a storm. That is a challenge.

I think they are proposing that it be more of a discount rather than 100 per cent. It is a judgmental question about how you set that discount. Luckily that’s why we have IPART to deal with intractable problems.

Would you like to add to that, Kaia?

MS HODGE: Kaia Hodge from Sydney Water. I guess one treatment of that might be what costs could Sydney Water avoid if you actually have these onsite treatments for stormwater? One of the difficulties in terms of the discount proposal is that a lot of the benefits certainly occur. They contribute to greening. They contribute to amelioration of smaller flooding events, particularly on a local basis, and broader social outcomes for our communities.

In terms of avoided costs for Sydney Water, we are really looking at things that would reduce the amount of capital investment that we require for our stormwater system either in terms of amplifications and renewals or would reduce primarily sediment and litter of which residential properties are not a significant contributor.

In terms of the other contributions to our stormwater system, they basically come from shared spaces within catchments, from roadways, from parks. Basically at the moment, the way that stormwater is charged is that for those who live within the catchment, the whole cost to the trunk drainage system is borne by Sydney Water.

When you untease it in that way, there are insignificant avoided costs that Sydney Water has because the trunk drainage basically is most important in those extreme events when you have had a couple of weeks of rainfall and all your onsite detention is full and your ground is saturated.

THE CHAIRMAN: That’s right. That is what exactly makes it so difficult. No comments on Rouse Hill? I was waiting for some comments on who should pay.

MR YOUNG: I think they are supporting the Sydney Water view, Mr Chairman. I am taking this as a full vote.

MR EDGERTON: I was going to ask Sydney Water a question on the Rouse Hill land. Sydney Water is proposing that additional land costs associated with stormwater management in Rouse Hill essentially be added to the wastewater regulatory asset base to be recovered from all wastewater.

.10/11/2015 84 SYDNEY WATER
Transcript produced by DTI
Categorize behind that as opposed to levying the costs, and essentially the impact as being the local community in Rouse Hill.

MR FREEMAN: Paul Freeman from Sydney Water. I take you back to when Rouse Hill was determined in the EIS. Recycled water, integrated stormwater management was about the whole wastewater treatment of reducing nutrient discharge to the Hawkesbury-Nepean system. Ultimately there were land purchases and other things, just by the way. The LEPs were then gazetted for Sydney Water to acquire land, and I did check up on that fact to make sure that the horse wasn't before the cart, et cetera. The key thing for us was that it is all part of the integrated package. You can't just deal with the treatment plant alone. You can't just deal with the stormwater system, and the stormwater system is both quantity and quality.

So the investments go to manage both as a total package and it is interesting that, 20 years later, we are still talking about Rouse Hill and the apportionment of charges and that, which does not serve us well for discussing liveability and integrated water cycle management. We have to try and solve some of these problems.

Coming forward we essentially arrived at a place when developer charges were set to zero and we still had a statutory obligation to acquire land. You will recall the previous determination where we decided, or the tribunal decided, that we would recover that additional land purchase from the people who resided within the stormwater boundaries of the Rouse Hill catchment.

THE CHAIRMAN: A percentage of it.

MR YOUNG: 70 percent.

MR FREEMAN: Well, it was 70 per cent of that, 30 per cent of the capital goes to the wastewater charge. Then the government intervened and we had a bit of, let's say, argy-bargy that set back the price. So we are not suggesting that we have a perfect situation that exists.

We are also not suggesting that we go back and revisit what transpired since the 2012 determination, that we would continue to have the residential customers continue to contribute to that. However we have found ourselves still with an obligation to procure land that is acquired to manage its integrated stormwater/wastewater service with around about a $17 million shortfall.

From pragmatic terms, we think rather than going back and unpacking it and trying to sort out what is the right proportion and contribution of each of the elements, we should just take that surplus, continue with the contribution customers are making, keep that level with their expected CPI increases and recognise that a large part of this integrated system is still about managing nutrient discharge into the Hawkesbury-Nepean and roll that additional land purchase back into the wastewater RAB.

MR EDGERTON: Just to clarify, you basically say it is very difficult to distinguish between wastewater management and stormwater management in general particularly in terms of the Hawkesbury-Nepean, so there is an argument for apportioning some of these costs that I guess initially appear to be stormwater to wastewater customers?

MR FREEMAN: It is always there and you also have to go back to that time. Given the best science and the best technology that was available, the least cost option that was chosen in a fully public environmental impact assessment was that managed mix and an integrated mix of stormwater and wastewater treatment, proper land management to limit at the end point discharge to Second Ponds Creek, through Cattai Creek, through the Hawkesbury-Nepean of that overall discharge of the phosphorous and nitrogen nutrients to prevent nutrification in the downstream segments such as Sackville, et cetera.

Overall as a package over 20 years, that has been highly effective when combined with all the other things that Sydney Water has been doing in the system. You cannot say that fundamentally it was wrong. At the time, they would have had to put in probably imperfect technology and at the much higher price around reverse osmosis to get the same level of nutrient amelioration into system.

What the community has benefited from on the whole, both from the whole wastewater community but also the localised community is that least cost for the available technology at the time. If you came back and wanted to
readdress it given the technologies and the price points we have for technologies today, you might make a different least cost choice, but they were the choices that were made then. I think we need to be true to the decisions that are there that still make sense and still are achieving the outcomes that we need to achieve for the community as a whole, and that is the environmental protection of the Hawkesbury-Nepean stretches and the Cattai Creek stretch.

THE CHAIRMAN: One sort of narrower point is that in the last determination it was determined that 70 per cent should be paid by the Rouse Hill residents and 30 per cent was to be paid by the rest of Sydney Water's consumers. As you quite rightly say, there was some argy-bargy over that and we now have a situation where the Rouse Hill residents are not called upon to pay $71.1 million, or whatever the difference is, and the suggestion of Sydney Water is that everybody else - all other water users - should pay that. The alternative is that Sydney Water just wear it on their bottom line. Sydney Water's position is quite defensible - that is your position. The alternative is Sydney Water should wear it because it is not possible to bill the Rouse Hill residents given what happened in 2012 and 2013. So I guess why should the other water users in the Sydney metropolitan area pay $17.1 million? Why shouldn't Sydney Water wear it?

MR YOUNG: It goes to the heart of what Paul was saying.

MR FREEMAN: It goes back to the EIS. We would argue that the 70:30 split in 2012 was not the correct determination. It was the determination, I acknowledge that, but what we are suggesting is that it still fundamentally didn't recognise the true --

THE CHAIRMAN: Are you saying the 70:30 split was wrong?

MR FREEMAN: Yes, basically. It didn't recognise the true contribution of an integrated wastewater management system that needed to manage upstream stormwater and run-off impact to control the nutrient loads in the Hawkesbury-Nepean system.

THE CHAIRMAN: What's the right split if that is wrong?

MR FREEMAN: The real question is do we need to try and achieve what might be right split or do we need to try and achieve what might be pragmatic? I think my advice is that, at the end of this, with the $17 million across, it will work out at about fifty-fifty between the amount that is paid by wastewater customers and the amount that is paid by the stormwater customers.

THE CHAIRMAN: I guess some people can consider making everybody else in Sydney pay as pragmatic. Other people think it is pragmatic if Sydney Water takes a hit on the bottom line, so that is the judgment we have to make.

MR YOUNG: It probably goes to the heart of this whole debate we have had today about liveability and the framework and how do we pay.

THE CHAIRMAN: It does. Yes, it does.

MR YOUNG: It is really interesting and you raised this as a --

THE CHAIRMAN: As I said earlier on, this is a concrete example of having to wrestle with these issues and in the end the tribunal will make a judgment --

MR YOUNG: Of course.

THE CHAIRMAN: -- and we will go from there, but this is a very useful discussion. Thanks for your input.

MR YOUNG: It probably goes to the heart of this whole debate we have had today about liveability and the framework and how do we pay.

THE CHAIRMAN: It does. Yes, it does.

MR YOUNG: It is really interesting and you raised this as a --

THE CHAIRMAN: As I said earlier on, this is a concrete example of having to wrestle with these issues and in the end the tribunal will make a judgment --

MR YOUNG: Of course.

THE CHAIRMAN: -- and we will go from there, but this is a very useful discussion. Thanks for your input.

MR YOUNG: It probably goes to the heart of this whole debate we have had today about liveability and the framework and how do we pay.

THE CHAIRMAN: It does. Yes, Jean-Marc?

MR KUTSCHUKIAN: Could I clarify the fifty-fifty split. Does that include the increase in the civil capex for Rouse Hill?

THE CHAIRMAN: Yes, Jean-Marc?

MR KUTSCHUKIAN: Could I clarify the fifty-fifty split. Does that include the increase in the civil capex for Rouse Hill?

THE CHAIRMAN: Yes, Jean-Marc?

MR KUTSCHUKIAN: Could I clarify the fifty-fifty split. Does that include the increase in the civil capex for Rouse Hill?

THE CHAIRMAN: Yes, Jean-Marc?

MR KUTSCHUKIAN: Could I clarify the fifty-fifty split. Does that include the increase in the civil capex for Rouse Hill?

THE CHAIRMAN: Yes, Jean-Marc?
put the $17.1 million into the wastewater RAB, you would ultimately have about a fifty-fifty share in place, but I note that the civil capex expenditure has increased significantly over the period to $24.1 million. Does that include the civil capex or are you just talking about land costs?

MR FREEMAN: I would have to take that on notice.

MR KUTSCHUKIAN: Also noting that some of the civil capex is there for flood management not reducing nutrients into the Hawkesbury-Nepean, so why should wastewater customers pay for that capital expenditure?

MR FREEMAN: They are all good points and we will take them on notice.

MR FUNSTON: Jean-Marc, just to clarify, we will take that question on notice and come back to you with the figures. I think it is important to remember that the 70:30 was actually based on the acquisition of 50 hectares of land, which was then reduced, so this lead to what happened because of the fact we only acquired 11 hectares of land.

THE CHAIRMAN: Thank you very much for that. We now move into the final session.

MR YOUNG: Chair, there was no discussion on the late fees or the credit card. Presumably that is all accepted.

THE CHAIRMAN: Nobody offered to speak on the late payment fee or miscellaneous fees. Kristal?

MS BURRY: We made comments about the late fee and the credit card fee, particularly that any consumers who are already in the hardship program and who will be identified should also have the same exemptions applied to the credit card fee. I have spoken with Sydney Water about this issue. They seem very proactive about trying to identify customers who are in need and so we do not have any additional comments to make about that.

THE CHAIRMAN: Thanks, Kristal. So do you take an early show on that, Kevin?

MR YOUNG: 100 per cent support is what I'm hearing.

THE CHAIRMAN: We now move to the conclusion. This is a chance for people to raise other issues, but first I would like to invite two representatives of the Metropolitan Local Aboriginal Land Council - Nathan Moran and Lucy Simpson.

METROPOLITAN LOCAL ABORIGINAL LAND COUNCIL

Ms SIMPSON: Hello, everyone. My name is Lucy Simpson. I am a Yuwaalaraay woman and a local resident in the Gadigal country in the inner west. I was born in Sydney and grew up here, and I also have really strong ties to the freshwater country of north-west New South Wales, where my father's family is from - up around Walgett, Lightning Ridge and Angledool.

I wanted to share a little bit about who I am today and I guess the significance of the river as an Aboriginal person - beyond a stormwater drain.
I often think how beautiful it would be to be able to Yarning, something we have done for many years. These stories and life that will come as a result.

My daughter was also born in Sydney and is growing up here and while we get back to see family and be on Gamilaraay/Yuwaalaraay country as often as we can, I understand also the importance of connecting to this place for her, as it has been for me, for her grounding and sense of belonging.

I value my connection to the river. I am a very proud freshwater woman. These sentiments I express through my creative work as a designer with my studio Gaawaa Miyay - river daughter designs. I am a designer who works largely with the idea of visual storytelling, expressing aspects of traditional knowledge and also contemporary experience and the mapping of the landscape in graphics and textiles.

Growing up we were always taught, obviously, to respect country with the river very much a central part of memories and experience. When I think of my childhood with family, the fondest memories are often of times down on the river fishing, swimming, camping out, telling stories yarning, something we have done for many years - beyond my own life - teaching, learning and sharing on country important philosophies, knowledge and experience; a way of learning that quite literally has continued to flow down the river, echoing up the banks for a very long time.

I often think how beautiful it would be to be able to
in the west, and beyond actually to the Macdonald River.

I would probably follow on from my sister’s words here. We offer a different perspective here today about water. In particular, I like the last point up there - miscellaneous and other issues related to water.

Firstly I will start by acknowledging again the importance of water to our people. It is at the heart and centre of our culture, our people and our communities. Without water, we just do not survive in this harsh climate and, unfortunately, we believe there is a greater sphere of understanding to be had on water and I hope to do that now.

We would like Sydney Water to acknowledge the need to address the health of all our waterways, in particularly the rehabilitation of these vital ecosystems - sorry, I am trying to hold paper and speak; it’s a bit hard - advising extensive cultural backgrounds to the use of waterways in the Sydney area and I talk about the covering over of these vital water sources.

The Sydney Tank Stream was the first asset of the Gadigal people that was removed. It is concreted over today but we would love to see more education, understanding and awareness of that important resource - the first resource that was taken in Sydney.

Moving on from the city’s heart and centre out to the Alexandria canal network that we cover over, which is part of the greater Cooks River system - we heard sis talk about that - we need that rehabilitated. It does no good for anyone, let alone the community as a whole, or our culture to see our waterways in such disgusting standards of health as it stand today, to use polite language.

We really believe that rehabilitating these vital assets is of benefit not only from a social point of view, a cultural point of view, but an economic point of view because it adds to wellbeing and it adds to the health of all in the community, let alone, as I said upfront, that we would really love the opportunity to share and impart the knowledge, understanding, education on the use of water by First Nations Australians.

Be it the Eora in the coast here, the Dharug to the west, the Dharawal to the south or the Darkinjung to the north, or whether you are like me - I am a Birpai Dhungutti from the far north of this state - or a Yuwaalaraay woman, Wiradjuri people, all across this state water is the central being for all people. We never live on top of it; we always live with it and have always respected it. I hope we can see Sydney Water take into account a different sphere that it has not considered and that is educating the community on the importance of water - without it, we are all gone. Thank you.

THE CHAIRMAN: Thank you very much, Nathan. Are there other questions or comments?

MS BARKER: Thank you very much. I am Stephanie Barker, acting director of urban and regional planning from the Department of Planning and Environment. Thanks for the opportunity today to make a comment to the tribunal.

Our comments are on the sustainable and resilient growth of Sydney. It has been very interesting today to hear the discussion on liveability and the greater understanding that is needed.

As Sydney grows in the next 20 years, our waterways will have greater pressure to provide amenity and liveability to our city both in the existing urban areas and in new land release areas. We recognise that healthy waterways are integral to the economy and lifestyle of the people of Sydney. As Sydney’s population grows, more people are exposed to flooding in existing urban areas, bringing more pressure to manage exposure to flood risk, so the ability of Sydney Water to work with councils and the private sector to support initiatives around liveability such as healthy waterways and to manage exposure to flood risk is important in delivering environmental, social and economic outcomes for Sydney. Thank you.

THE CHAIRMAN: Thank you, Stephanie. Stephen?

MR SUMMERHAYES: We advocate for an outcome of this process that also ameliorates the past, current and future impacts of Sydney Water activities on the environment and water as beautifully articulated by Ms Simpson and Mr Moran.

THE CHAIRMAN: Thank you. Are there any more questions or comments before we wrap up? Kevin?
MR YOUNG: Just a comment, thank you. I wanted to thank Lucy and Nathan for what they said about the future, it is appreciated and we can feel the passion.

Recently we discussed a strategy on what is the future for Sydney Water? We have talked today about aspirations and more than what is said in our regulatory requirements, and that was our vision - “Sydney Water the lifestream of Sydney”. That is what you are talking about because I can tell from what you are talking about and from that passion that the river is the lifestream of Sydney.

We have had a great discussion today about liveability. In fact, Mr Chairman, I started off this morning by saying I have been to so many of these hearings in my entire career, I am running out of them. This is unique in my history because generally Sydney Water comes along and says, “For these reasons we are putting up prices by this amount”, and the whole day is a critical review of individual elements of the operating costs and capital costs, and that is the whole focus.

Today has been a fantastic day because the focus has been about value-adding strategic direction for the city, sustainability of our city, getting more engagement with the community and having a look at a broader conversation that we need to have that you have raised as well. Thank you.

I just wished to make those comments and I thank everyone for their comments today. It has been a pleasure to be here and to be part of the conversation with the Sydney Water team and to hear what has been said by Stephanie, Lucy and Nathan and everyone on the panel, so it is very much appreciated.

MR SUMMERHAYES: Sorry, there is just one last thing. I view today’s process as an opportunity to present very positive focuses for the community and an opportunity to meet some other stakeholders and hear their position and look at ways in which together we can enjoin to create a more liveable city.

CLOSING REMARKS

THE CHAIRMAN: Thank you very much. Indeed I think it has been a fantastic day, a fantastic discussion and a very constructive environment. I would like to thank you all very much for your contribution and your participation. It has been of great benefit to the tribunal to hear your views.

A transcript of today’s proceedings will be available on our website in a few days.

We will consider all the issues that have been raised and discussed today when making our decisions on Sydney Water’s prices to apply from 1 July 2016.

As previously mentioned we plan to release a draft report for public comment in March 2016. Stakeholders will have about four weeks to make further written submissions before we make our final decisions.

A final report and determination will be released in June of 2016 and the prices that we set will apply from 1 July 2016.

Finally, I encourage you to check IPART’s website for updates and further information on our timetable including the release date for the draft report and the date by which submissions are due in respect to the report.

Thank you all very much and we have finished five minutes early. Have a good afternoon.

AT 3.55PM THE TRIBUNAL ADJOURNED ACCORDINGLY