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Date of submission: Monday, 23 June 2025

Your submission for this review:
Executive Summary The key proposal in this response to the IPART draft decision is a request for application of commercial prices to Building Owners that provide rental apartments in multi-unit buildings. It is requested that IPART grant the authority for Building Owners to recover residential fixed and usage charges from tenants using individual meters at regulator approved rates. This fairer pricing will also significantly reduce the administration burden and transactions costs incurred by Sydney Water and Building Owners. The application of user pays principles to water demands provides efficient price signals to both Sydney Water and customers. We propose that the application of user pays pricing to sewer discharges (via water metering) will further improve the efficiency of Sydney Waters residential prices. We also note that the proposed price levels in IPARTs draft decision generate sufficient revenue for the 2025 regulatory period, ensuring Sydney Water can continue to provide reliable and sustainable services to support new growth. Importantly, this growth is also being funded through substantial developer contributions, including through the newly introduced Development Servicing Plans (DSPs) from 1 July 2024. These charges are critical in funding new infrastructure to support urban expansion and infill development. When combined with gifted assets and Housing Productivity Contributions, DSPs represent a major source of infrastructure fundingensuring that growth is equitably funded without placing undue burden on existing customers.

urban WaterCycle Solutions
Independent research and consulting

Meriton Group Response to the IPART draft decision on Sydney Water prices

Towards more equitable tariffs for multi-unit residential buildings

23 June 2025

[redacted]

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Executive Summary

The key proposal in this response to the IPART draft decision is a request for application of commercial prices to Building Owners that provide rental apartments in multi-unit buildings.

It is requested that IPART grant the authority for Building Owners to recover fixed and usage charges from tenants using individual meters at regulator approved rates. This fairer pricing will also significantly reduce the administration burden and transactions costs incurred by Sydney Water and Building Owners.

The application of user pays principles to water demands provides efficient price signals to both Sydney Water and customers. We propose that the application of user pays pricing to sewer discharges (via water metering) will further improve the efficiency of Sydney Water's residential prices.

We also note that the proposed price levels in IPART's draft decision generate sufficient revenue for the 2025 regulatory period, ensuring Sydney Water can continue to provide reliable and sustainable services to support new growth.

Importantly, this growth is also being funded through substantial developer contributions, including through the newly introduced Development Servicing Plans (DSPs) from 1 July 2024. These charges are critical in funding new infrastructure to support urban expansion and infill development. When combined with gifted assets and Housing Productivity Contributions, DSPs represent a major source of infrastructure funding—ensuring that growth is equitably funded without placing undue burden on existing customers.

1 Background and Introduction

This report provides a response to the draft report on Sydney Water prices 2025-2030 published by IPART on 20 May 2025.[1]

On 9 December 2025, Meriton Group submitted the report on *Towards more equitable tariffs for multi-unit residential buildings* to the IPART review of prices for Sydney Water services.[2] Professor Peter Coombes from Urban Water Cycle Solutions was commissioned to assist in the making this submission.

Meriton Group provide residential apartments for rent in multi-unit buildings. Four structural changes to price regulation are proposed that will make short and long run economic improvements for building owners, Sydney Water, tenants and citizens.

The submission to IPART on 9 December 2025 is part of an ongoing attempt at engagement with IPART and Sydney Water since 25 November 2022 to resolve the inequity in pricing policy with respect to the owners of multi-unit buildings that provide water cycle services and retail accommodation.

The owners and operators of the multi-unit buildings provide services to tenants via private water and sewage networks within the buildings as shown in Figure 1.

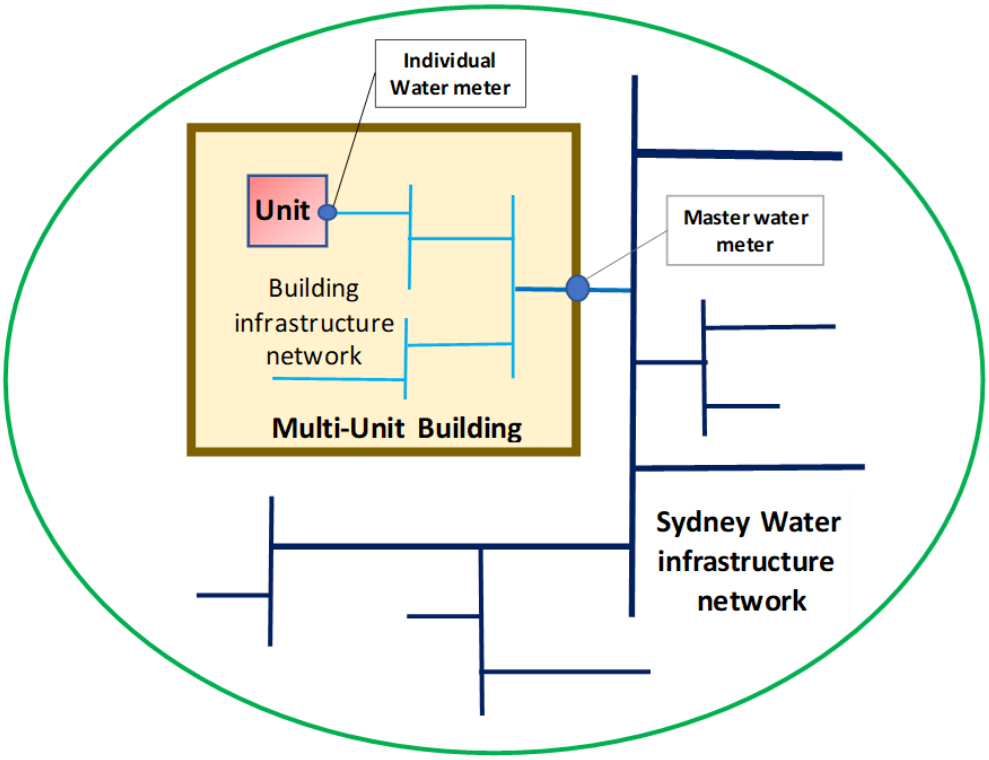

Figure 1: The private building and Sydney Water infrastructure networks

[1] IPART (2025), Sydney Water prices 2025-2030, Draft Report, 20 May 2025
[2] Urban Water Cycle Solutions (2024), Towards more equitable tariffs for multi-unit residential buildings, Report for Meriton Group by Professor Peter Coombes, 9 December 2024

Figure 1 shows that the Sydney Water network provide services to the building and then the Building Owner distributes those services via the building infrastructure network to units.

A Building Owner provides all the local water and sewage services to the property boundary of units within the building. Sydney Water provide water and sewage services to the property boundary of the multi-unit building.

Essentially the owner and operator of the multi-unit building provides services to tenants via the "private" water and sewage networks within the buildings and pay Sydney Water for those services. The owner of new multi-unit buildings is required to install plumbing for meters to each unit and pay for the supply and installation of individual meters to each apartment. However, Sydney Water provides individual water meters for housing in greenfield developments at their cost.

A Building Owner of multi-unit buildings provides all the local services to tenants within the buildings. This is different to the relationship between a landlord and a tenant for a single residential dwelling that receives services from others.

These local services include provision, operation, maintenance and replacement of distribution infrastructure within buildings. The Building Owner is responsible for the commercial risk and depreciation of this local distribution infrastructure. Each unit is also provided with water meters and associated plumbing. All local administration of accounts, inquiries, requests for assistance and complaints by tenants are also provided by the Building Owner.

Four key changes in price regulation were proposed to improve the equity of the services provided within multi-unit buildings.

Firstly, the Building Owner should pay commercial fixed and usage tariffs at the property boundary to the Water Utility. This will reduce the losses incurred by Building Owners in providing retail services to rental apartments within buildings. This initiative will mitigate the growth in costs of providing housing and rental payments.

Secondly, the individual meters at units can be used by Building Owners to recover tariffs for water and sewage use based on approved rates provided by the regulator. The default tariff should be the commercial rate charged to the Building Owner. In addition, the Building Owner should be able to charge regulated fixed tariffs to tenants.

These structural adjustments are better allocation of pricing mechanisms to demands that provide targeted incentives for efficiency and will allow more equitable responses. Initiatives 1 and 2 are expected to lead to balanced outcomes for tenants and building owners.

Whilst these measures will not eliminate all the losses incurred by Building Owners in providing water, sewage and stormwater services, it will provide a more equitable balance in the pricing regimes and provide incentive for multi-unit residential

developers to continue provide the essential housing stock in the Sydney Region. This will ultimately reduce the cost of providing expensive water infrastructure in the growth corridors for greenfield detached housing and lead to more water efficient housing to meet the targets of water conservation for Sydney.

A third measure is proposed. Application of a full usage charge of $6/kL for water and wastewater services (with no fixed tariffs) is proposed for all residential dwellings in Sydney for the 2025-30 regulatory period.

This initiative will foster water efficient behaviours from Sydney's households whilst providing strong opportunities for families to reduce water use to improve household welfare and environmental impacts. It is proposed that progress on water demands, wastewater discharges and Sydney Water revenue will be reviewed by Sydney Water and IPART on an annual basis. The usage charge could be reviewed each year.

In the absence of full implementation, this full usage charge could apply to multi-unit buildings providing rental accommodation. The management by Building Owners and Sydney Water can provide strong information about the performance of this simpler and more efficient pricing policy.

The fourth measure is removal of development servicing charges for developments within multi-unit buildings that provide rental accommodation. This action recognises that the Building Owner provides all local infrastructure and water, wastewater and stormwater services within multi-unit buildings providing rental accommodation. The objective of this change is to incentivise greater supply of affordable rental accommodation.

Our response to the IPART draft report on Sydney Water prices is underpinned the following key documents:

1. IPART (2025), Sydney Water prices 2025-2030, Draft Report, 20 May 2025
2. Urban Water Cycle Solutions (2024), Towards more equitable tariffs for multi-unit residential buildings, Report for Meriton Group by Professor Peter Coombes, 9 December 2024
3. AtkinsRealis (2025) IPART Sydney Water expenditure review (2025), 9 May 2025
4. Sydney Water (2023), Infrastructure contributions, How we apply IPART's pricing method to calculate prices, version 1.3, November 2023
5. Urban Water Cycle Solutions (2024), Review of Sydney Water pricing from 1 July 2025, Report by Professor Peter Coombes, 9 December 2024
6. Coombes P.J., (2022), Modelling the Impact of Changes to BASIX for Department of Planning, Industry and Environment, Urban Water Cycle Solutions, 26 August 2022.

7. Coombes P.J., (2024), The influence of regulation on preference for utility infrastructure investment to generate income for Australian water corporations, Australasian Journal of Water Resources, 28(2), 151-172.

This response provides additional commentary on the need for structural reform of the legacy tariff structure to respond to systemic challenges and adds to IPART's various discussion points around growth, equity, efficiency, affordability, system capacity and asset management.

2 Our response to IPART Draft Prices

Our water utilities provide an essential service in an increasingly complex environment.

These government monopoly corporations and their private sector partners operate in a broader economy, society and environment that is also coping with substantial challenges. The drive to earn more revenue is strong, the economic capacity of households is limited and the need for independent regulation is paramount.

It is equally challenging for the regulator to provide balance across this complex system of potentially competing information, outcomes and objectives. There is a need for pricing decisions that drive improved economic behaviour, opportunity, efficiency and social welfare across whole of society.

The impact of the price regulation of water utilities on the broader economy and household welfare must be considered. Increasing the economic viability of water monopolies is unlikely to be a surrogate for improving the welfare of households. The draft IPART report has made important progress on balancing these crucial objectives.

However, the IPART draft report does not reference or appear to engage with the submissions from Meriton Group or the Author. There is a need for IPART to address the proposal for a different structure of tariffs that apply to multi-unit buildings that provide rental accommodation.

The economic effect of minimising fixed water tariffs and increasing usage charges is an important move towards restoration of user pays principles. In combination with the spatial context of the IPART decision on infrastructure contributions, these decisions do contribute to the objectives of the four changes to economic regulation proposed by the Meriton submission.

Our response to key issues and discussion around the IPART draft report on Sydney Water prices is provided as follows:

- The proposed equitable tariff structure for multi-unit buildings providing rental accommodation, and
- User pays pricing, efficient prices and impact on tenants.

2.1 The proposed equitable tariff structure for multi-unit buildings providing rental accommodation.

The core of the submission by Meriton Group was a request for IPART to address the inconsistency and inequity in the framework of Sydney Water tariffs that apply to the owners of multi-unit buildings that provide rental apartments.

Sydney Water provide bulk services to the property boundary of the multi-unit building and then the Building Owner distributes those services via the building infrastructure network to rental apartments or units (see Figure 1).

The Building Owner also provides all customer services to units including water meters, water efficient appliances, billing services and resolution of complaints. They also construct, operate, maintain and renew the local water, sewage and stormwater services to units.

However, the Building Owner receives a bill from Sydney Water for each unit in the building that is the same as the bill for single dwellings that receive all services from the utility. In the current situation, the Building Owner provides and funds most of the services to rental units and also pays Sydney Water for those services.

This is not a fair or equitable application of tariffs.

A more equitable and economically efficient framework of tariffs is requested for inclusion in the IPART determination.

Whilst the IPART draft decision provides more favourable economic circumstances, the proposed improvements to the application of tariffs were not addressed. Meriton Group has been seeking resolution of these issues since November 2022.

An additional context of the need for a change in the application of tariffs is a shortage of rental apartments in the Greater Sydney region resulting in higher rents. Sydney is experiencing a crisis in housing supply and affordability that coincides with unusually weak growth in wages.

The provision of rental apartments in multi-unit buildings also encounters substantial financial barriers which impact on the availability of affordable housing.

Two key changes in the structure of price regulation are proposed which improve the equity of tariffs applied to multi-unit buildings providing rental units:

1. Building Owners should be charged commercial fixed and usage tariffs at the property boundary; and
2. Building Owners should be permitted to recover usage-based charges from tenants using individual meters (user pays principle), applying IPART approved rates. The default rate should be the commercial tariff.

These proposed structural adjustments in application of Sydney Water tariffs are a better allocation of pricing mechanisms to this unique situation. It will resolve the inequitable application of tariffs.

In response to the lower impacts of multi-unit buildings providing rental accommodation on Sydney Water infrastructure and the economic barriers to development, the removal of development servicing charges for these projects was also proposed.

It is also proposed to improve the equity and efficiency of the pricing policy by moving towards full user pays pricing. This initiative will foster water efficient behaviours from

Sydney's households and Sydney Water whilst providing strong opportunities for families to reduce water use to improve household welfare and environmental impacts.

The draft IPART decision does not directly address the four key proposals in our submissions but does make a significant contribution to improving the economic impacts that motivated our submission.[3] User pays pricing is addressed in the next Section of this report. The context of the proposed tariffs and infrastructure contributions is discussed below.

Most multi-unit buildings that provide apartments for rent are in brownfield areas of the Sydney Basin near the coast and generate lower impacts on water and wastewater infrastructure than housing in greenfield areas further from the coast. This insight is consistent with the spatial variation in costs in IPART's decision on infrastructure contributions.[4]

The Author's research into the spatial costs of providing water, sewage and stormwater services to Greater Sydney estimated the Sydney Water experiences an average annual cost a $440 per unit.[5] The Building Owners' costs to provide all local services was estimated at $728 per unit.

The impact of the draft IPART decision about Sydney Water prices on the Building Owners of multi-unit buildings that provide rental units is presented in Table 1 in the Residential columns. Impacts on tenants and Sydney Water are also provided. The commercial columns in Table 1 also provide the impact of proposed application of commercial tariffs to this circumstance.

[3] IPART (2025), Sydney Water prices 2025-2030, Draft Report, 20 May 2025
[4] Sydney Water (2023), Infrastructure contributions, How we apply IPART's pricing method to calculate prices, version 1.3, November 2023
[5] Urban Water Cycle Solutions (2024), Towards more equitable tariffs for multi-unit residential buildings, Report for Meriton Group by Professor Peter Coombes, 9 December 2024

Table 1: IPART residential and commercial tariffs for multi-unit buildings with rental apartments

Item	Commercial ($/year)		Residential ($/year)	
	2025-26	2029-30	2025-26	2029-30
All tariffs paid to Sydney Water	727.93	727.93	1175.92	1361.89
Total costs to Building Owner	1013.19	1050.92	1460.55	1589.32
Tenants bill for water use **	443.30	500.50	443.30	500.50
Tenants bill for water use and wastewater discharges **	624.77	681.97		
SWC profit *	288.56	383.48	735.92	921.89
Building Owner cost (tenant pays for water use)	1013.19	1050.92	1460.55	1589.32
Building Owner cost (tenant pays for water use)	831.72	869.45		

* note that Sydney Water will also benefit from decreased management and infrastructure costs under the commercial tariff regime.

** note that the tenant can vary their bills by changing water use behaviours.

Table 1 reveals that the draft IPART decision has decreased the total annual bill per unit as compared to the Sydney Water proposal by $117.74 in 2025-26 and by $382.04 in 2029-30. This is a small decrease on losses incurred by the Building Owner and a small increase in the bills paid by tenants by 2029-30 for water use.

The proposed application of the commercial tariffs with tenants paying for water use (based on meters at the unit) results in significant reductions in losses incurred by Building Owners with unchanged impacts on tenants.

The diminished loss to the Building Owner is a reduction in profit to Sydney Water that recognises that the Building Owner is providing the customer services to rental units.

The reduction in Sydney Water profit is over-estimated because the utility is not providing the customer services to rental units which will reduce its costs per unit. It is expected that Sydney Water's profits are not changed by the application of commercial tariffs. This change to application of commercial tariffs represents a substantial reduction in the administrative burden experienced by Sydney Water.

The core request for IPART decision:

- **Application of commercial tariffs to Building Owners of multi-unit rental properties based on metering at the property boundary.**

It is proposed that the final IPART decision on Sydney Water prices assigns the commercial tariffs to the Building Owner that are based on meters at the property boundary. The Building Owner should be permitted to charge the tenant for water use

recorded by a meter at the unit. In accordance with existing requirements, the Building Owner provides the water meters and water efficient infrastructure.

This proposed application of Sydney Water commercial prices to multi-unit buildings that provide rental units is consistent with existing definitions and protocols. It is a small regulatory change that requires a direction from IPART.

The change from residential to commercial tariffs is the core change requested in this submission.

- **Authority for Building Owners to recover commercial usage charges from tenants using individual meters at regulator approved rates.**

It is also proposed that tenants should pay for water use and wastewater discharges, at commercial rates, based on metered water use at the unit. This additional action may increase total bills paid by tenants. However, it is a more equitable price arrangement that sends a stronger signal to tenants about efficient water use and provides greater user choice.

As discussed in the next section on user pays pricing, this represents a fairer allocation of responsibilities based on use of resources by the tenant and access to infrastructure by the Building Owner.

It is noteworthy that Sydney Water prices incurred by the Building Owner can be passed on to the tenant as a factor of production which drives upwards pressure on rental payments. It is our view that are clear regulatory definition of the attribution of fixed and variable charges in preferable.

- **Alternative request: Authority for Building Owners to recover residential fixed and usage charges from tenants using individual meters at regulator approved rates.**

IPART does not provide a direction to apply commercial fixed and usage charges to multi-unit buildings providing rental units. In this situation, it is requested that IPART grant the authority for Building Owners to recover residential fixed and usage charges from tenants using individual meters at regulator approved rates.

This additional action may increase total bills paid by tenants. However, it is a more equitable price arrangement that sends a stronger signal to tenants about efficient water use and provides greater user choice.

We highlight that the administrative burden and transaction costs to Sydney Water and Building Owners is substantially reduced by application of commercial tariffs to multi-unit buildings that provide apartments for rent. This strategy also reduces the bills paid by tenants.

2.2 User pays principles - efficient prices and impacts

The prices and the framework of tariffs proposed by Sydney Water did not significantly permit customers to improve their welfare by reducing water use and associated wastewater discharges. Our submissions highlighted that the user-pays principle with higher variable prices and lower fixed tariffs is a more equitable and efficient economic measure.

Moreover, the dominance of fixed tariffs in the proposed prices provides negligible efficiency signals to the utility and rewards higher water use. In our view, the dominance of fixed tariffs in pricing provides economic rent that privileges Sydney Water over customer opportunity and utility efficiency.

The draft IPART decision partially addresses this circumstance by providing efficient prices for access to water services and water use. However, there is a need to address the inequitable impacts of large wastewater fixed charges that continue to dominate household water bills.

Our submissions are consistent with the preferences of Sydney Water customers for higher variable water usage prices relative to fixed service tariffs permits usage choice.

It is important that tariffs incentivise economic efficiency of the utility and its business partners and provide equitable outcomes for customers. An efficient pricing policy sets the variable (volumetric) price of water services to the long run marginal cost of water services.[6] This assessment must be based on all economic costs and should not be limited to some of the utility financial costs.[7]

The structure of efficient prices could be estimated as a proportion of variable versus fixed prices imposed on customers that is similar to the proportion of variable versus fixed costs experienced by Sydney Water.

The Author's thirty years of research into urban water cycle services in the Sydney region reveals that the short run proportion of all fixed and variable costs ranges from 28% to less than 14%.[8] This result indicates that efficient prices should include a proportion of variable charges that are greater than 72% of the entire bill from Sydney Water for water, sewage and stormwater services. We should be mindful that this is a short run perspective because all costs are variable in the long run. The proportion of fixed charges should be lower in the total water bill.

[6] Coombes P.J., (2024), The influence of regulation on preference for utility infrastructure investment to generate income for Australian water corporations, Australasian Journal of Water Resources, 28(2), 151-172.
[7] Grafton RQ, A Manero, L Chu & P Wyrwoll (2023). The price and value of water: An economic review. Cambridge Prisms: Water 1, e3, 1–17 https://doi.org/10.1017/wat.2023.2
[8] Coombes P.J., (2022), Modelling the Impact of Changes to BASIX for Department of Planning, Industry and Environment, Urban Water Cycle Solutions, 26 August 2022.

The draft IPART decision also includes the following commentary (for example) on the potential impacts of more efficient prices that we address in this section:

> *The proposed change would mean lower fixed charges, which would be set to generate the remaining revenue we estimate Sydney Water will need to cover its efficient costs. Households and businesses with low or moderate water usage may benefit from a higher variable water usage charge (and lower fixed charges). However, we note that higher water users including some large families and industrial customers may face a higher percentage increase in their bills.*
>
> *Higher variable water usage charges might increase what renters pay for using water Sydney Water sends bills to property owners. However, property owners can pass on the water usage component of their bills to their tenants. Tenants in this situation, would experience higher percentage increases in their bills, due to in the materially higher variable water usage charge.*

The IPART comments suggest that more efficient prices will benefit households and businesses with low to moderate water use and higher water users will experience a greater increase in water bills.

We examine the total Sydney Water bills for different water annual water use to further clarify efficient prices. The total bill (water, sewage and stormwater services) paid by households in 2030 from the Sydney Water proposal and draft IPART decision is presented in Figure 2.

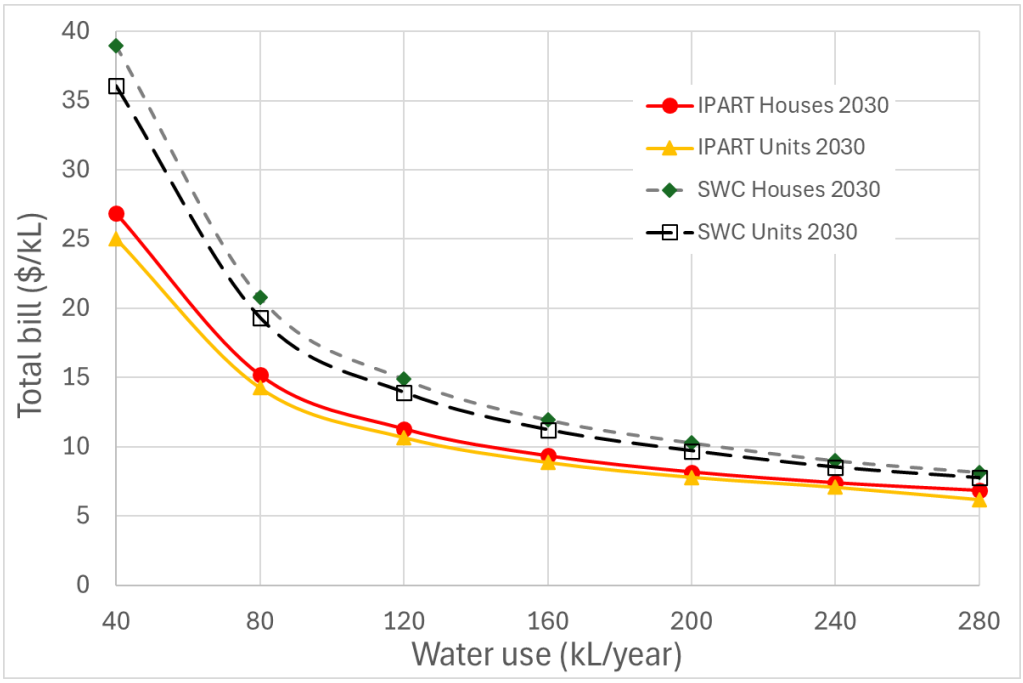

Figure 2: The proposed and draft decision on 2029-30 total price impact for units and houses

Figure 2 demonstrates that households with lower water use pay substantially higher total costs per kilolitre of water use than households with higher water use. The pricing structure is dominated by fixed tariffs that provide diminished incentives for efficient water use or opportunity to improve household welfare.

Given the combined fixed tariffs for water and sewage are significantly larger than stormwater tariffs, the total price relationship to household water use provides a realistic indicator the efficiency of the proposed Sydney Water prices.

Figure 2 also shows that the draft IPART decision with lower fixed water tariffs and higher water usage charges provides an improved price impact. This IPART structure of tariffs is expected to better incentivise lower water use and provide more equitable opportunity to improve household welfare by managing water demand.

The draft IPART decision has improved the efficiency of the Sydney Water prices but does continue to disadvantage efficient water use behaviours and fixed tariffs are an excessive proportion of the total bill as shown in Figure 3.

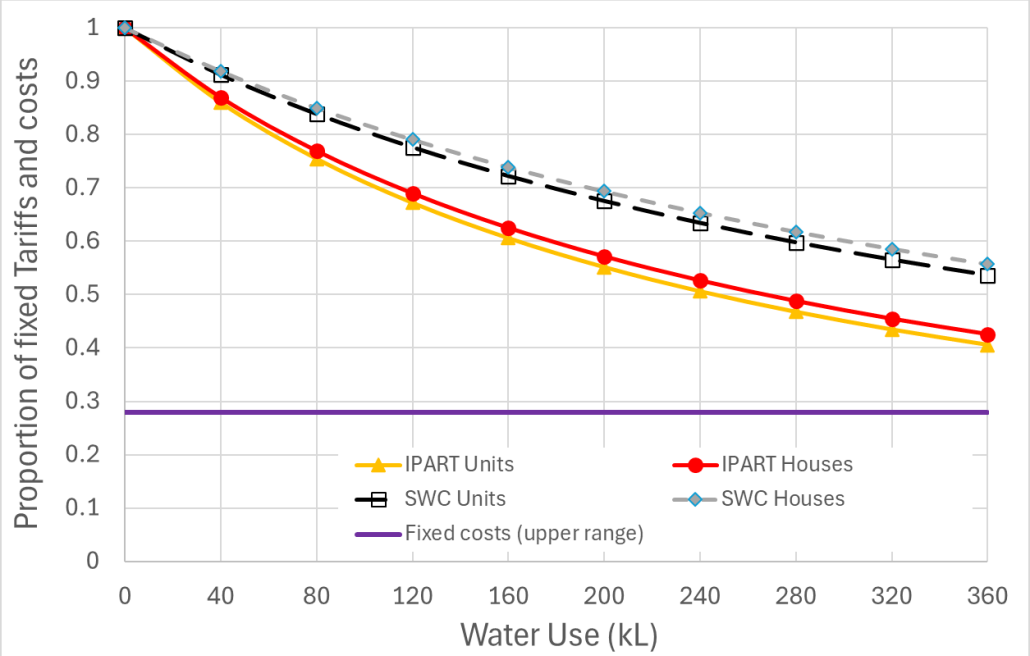

Figure 3: The proportion of fixed charges in 2029-30 total prices for services to units and houses versus the upper range of Sydney Water fixed costs.

Figure 3 shows that the proportion of fixed tariffs in total household bills is significantly higher than the upper range proportion of Sydney Water's fixed costs. The total Sydney Water bill for households with lower water use are increasingly dominated by fixed tariffs.

The improvements in price impacts in the IPART draft decision are driven by an allocation of water prices that better represent the proportion of variable and fixed costs. However, the retention of large fixed tariffs for wastewater discharges continues

to dominate the proposed Sydney Water bills for households with lower water use. This is an inequitable outcome.

Around 70% of water use from houses and 90% of water use from units becomes wastewater discharges.[9] The Author's investigations into the urban water cycle services in the Sydney region reveals that the short run proportion of wastewater fixed costs ranges from less than 35% to 56% (average: 44%).[10]

Given that household water use is a reliable indicator of wastewater discharges and is expected to have an indirect but similar price elasticity, we can apply fixed and usage charges to household wastewater discharges. The price signal from the combined water and sewage was expected have greater price elasticity that will drive higher efficiency outcomes from customers and Sydney Water.

It is also proposed that the wastewater charges are adjusted to better reflex the available information and produce more efficient prices. It is proposed that fixed charges are a 44% proportion of the total household wastewater tariffs, and the variable charge is applied to 90% of water use for units and 70% of water use for houses. The proposed fixed and variable charges for wastewater services are presented in Table 2.

Table 2: Proposed residential wastewater prices for 2024-25 and 2029-30.

Item	Year	
	2025-26	2029-30
Fixed tariff ($)	321.11	349.95
Variable charges ($/kL)	2.55	2.78

Including the fixed and variable wastewater charges from Table 2 in IPART's draft prices will substantially enhance the efficiency and equity of the proposed Sydney Water prices.

It is acknowledged that the proportion of wastewater discharges are higher, and stormwater runoff are lower for houses with rainwater harvesting. The resultant reduction in stormwater runoff from properties provides benefits to both the stormwater and wastewater networks.[11]

The wet weather factors (4 – 12 times dry weather flows) used in design of wastewater infrastructure is strong evidence that reducing stormwater runoff at the local scale will improve the capital and operating costs of wastewater services.

[9] Sydney Water (2023), Infrastructure contributions, How we apply IPART's pricing method to calculate prices, version 1.3, November 2023

[10] Coombes P.J., (2022), Modelling the Impact of Changes to BASIX for Department of Planning, Industry and Environment, Urban Water Cycle Solutions, 26 August 2022.

[11] Coombes P.J., (2022), Modelling the Impact of Changes to BASIX for Department of Planning, Industry and Environment, Urban Water Cycle Solutions, 26 August 2022.

These benefits are expected to balance any lost revenue from wastewater variable tariffs. However, Sydney Water records the presence of rainwater harvesting in its billing system. This information can facilitate the application of a default wastewater discharge of 150 kL per annum for houses with rainwater harvesting.

It is proposed that non-residential wastewater tariffs provided by the IPART draft decision (variable tariff of $1.41/kL) are retained subject to inclusion of the water wastewater discharge factors of different types of non-residential properties in the economic investigations. Wastewater discharge factors can readily be applied to different non-residential properties (nurseries will have low discharge factors and commercial properties will have high discharge factors) in the ultimate variable tariffs for wastewater discharges.

Do more efficient prices impact on higher water users?

It is suggested by IPART that higher water users including some large families and industrial customers may pay a higher percentage in their Sydney Water bills. However, we have provided information that demonstrates that higher water users will experience larger variable charges but lower fixed changes.

The reduced fixed water tariff in 2030 represents 88 kL of water use at the 2030 variable water tariff. A higher water user will need to increase their water use by more than 88 kL to be worse off under the IPART draft decision. In addition, the increased variable prices are expected to reduce water use and wastewater discharges by 1% - 5% which will further reduce the impact of total water bills on higher water use households.

It is also noteworthy that larger households are not necessarily higher water users and some households with higher income are also associated with higher water use. The relationship between household size and water use is also non-linear as demonstrated (for example) by Figure 4.

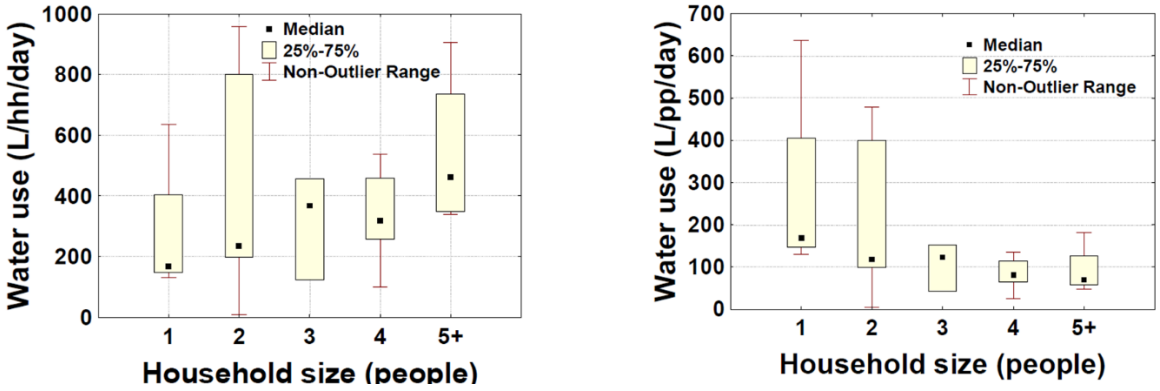

Figure 4: An example of the relationship between household size and water use

Figure 4 reveals that there is increasing opportunities for efficient water use in larger households due to diminishing increases in water use around shared activities such as

cooking, dish washing and clothes washing.[12] The shared water use activities in larger households result in higher reductions in water use in response to economic and drought signals.

It is expected that higher variable charges and lower fixed tariffs will prove significant opportunities for larger households to manage total water bills by reducing water use.

Do more efficient prices impact on renters?

The IPART draft decision explains that a larger variable water charge may result in a higher percentage increase in water bills paid by tenants. In these circumstances, the variable charge represents a tenants' use of resources, and the fixed tariffs are the rental for using the Sydney Water infrastructure paid by the owner of the property.

Similar to the above discussions, the increased variable charge provides greater incentive and opportunity for the tenant to reduce water use and improve household welfare. It is commonly assumed that higher fixed charges provide benefits to tenants.

However, an equitable pricing policy must ensure that the usage charges reflect variable costs of services enjoyed by the tenant and the owner of property pays the fixed costs of the services. Otherwise, the property owner is subsidising the water and wastewater use of the tenant and there are diminished incentives for efficient water use.

It is also important to consider that high fixed charges imposed on the property owner are also passed onto tenants as a factor of production in the rental transaction. The allocation of higher fixed charges to water and wastewater services may not provide welfare benefits to tenants or renters.

A balanced distribution of fixed and variable charges is more likely to drive more efficient and equitable economic outcomes for both tenants and landlords.

2.3 Sydney Water's capability in dealing with new growth – can they and how?

The IPART draft decision on Sydney Water prices makes an important strategic return to the principles of user pays pricing. A significant reduction in fixed water tariffs and the increase in water usage charges provides more equitable and efficient water prices.

However, the ongoing adoption of large, fixed tariffs for wastewater services is a residual barrier to equitable and efficient prices. It is our view that user pays principles should also apply to wastewater tariffs. Importantly, the IPART draft decision on Sydney Water prices is financially sustainable:

[12] Coombes P.J., Insights into Household Water Use Behaviours Throughout South East Queensland During Drought. 34th Hydrology and Water Resources Symposium, Sydney, Australia, 2012

It is our view that it can remain financially sustainable and continue to provide sustainable services over the 2025 determination period.[13]

The Author's investigation affirms that the IPART draft prices will provide for the viability of Sydney Water with more equitable impacts on the community. A user pays policy (low fixed charges) is expected to provide efficient responses from Sydney Water and its customers. It was also found that reductions in water demands generate greater reductions in costs than the associated diminished revenue (economic multipliers).[14] More efficient prices will produce economic benefits to Sydney Water and its customers.

The IPART draft decision on Sydney Water prices and various public forums included commentary that substantial (rate and step change) increases in expenditure and tariffs were required to meet the challenge of population growth, ageing assets and climate change.

It was proposed that there is need for large increases in tariffs to reduce the impacts of population growth and urban expansion. The regulated flat growth in Sydney Water bills will not allow the acceleration in capital expenditure required to address these challenges.

We tested these concerns by investigating the forecast changes in total water demand, the nominal revenue requirement NRR and the regulatory asset base RAB as follows:

- IPART total water demand (including losses): 544.3 GL in 2025-26 to 548.2 GL in 2029-30 indicates a small 3.9 GL increase in total water demand,
- NRR: $2.834 billion in 2023-24 increasing to $3.548 billion in 2029-30 is a 25% increase in regulated annual revenue that includes increases in revenue in each year that total $3.46 billion across the 2025 regulatory period; and
- RAB: $23.2 billion in 2023-24 to 33.57 billion in 2029-30 is a $10.37 billion (44.7%) increase in the regulatory value of Sydney Water assets.

The IPART draft decision provides for an increase in regulated NRR revenue of $3.46 billion (25%) and the regulated value of Sydney Water by regulated assets by $10.37 billion (44.7%) during the 2025 regulatory period. These results indicate strong increases in the viability of Sydney Water in response to a moderate 7.2% increase in connections and a small 0.72% increase in the water demands.

However, these regulatory processes do not reveal the additional major contributions to providing future infrastructure. It is important to note that the expansion of Sydney Water infrastructure to service new and infill growth is paid for by developers as gifted

[13] IPART (2025), Sydney Water prices 2025-2030, Draft Report, 20 May 2025, s 10.4, p 136
[14] Coombes P.J., (2022), Modelling the Impact of Changes to BASIX for Department of Planning, Industry and Environment, Urban Water Cycle Solutions, 26 August 2022.

assets and infrastructure contributions. These costs are passed on to new customers as part of house prices.

Delivery of New Infrastructure

From 1 July 2024, Sydney Water introduced **Development Servicing Plans (DSPs)** to collect infrastructure contributions from developers, in addition to the existing **Housing Productivity Contributions**. These new DSP charges play a critical role in funding the delivery of water infrastructure required to support future growth.

Developers also construct and provide the infrastructure needed to service new growth areas. These assets, built to Sydney Water's specifications, are then gifted to Sydney Water and become part of the calculation of the NRR when maintenance, operation or renewal expenses are incurred.

The historical values of these contributions are provided in Figure 5 and the historical building approvals provides evidence of the rate of development as presented in Figure 6. The estimate value of the gifted assets provided by developer is $1.06 billion during the 2025 regulatory period.

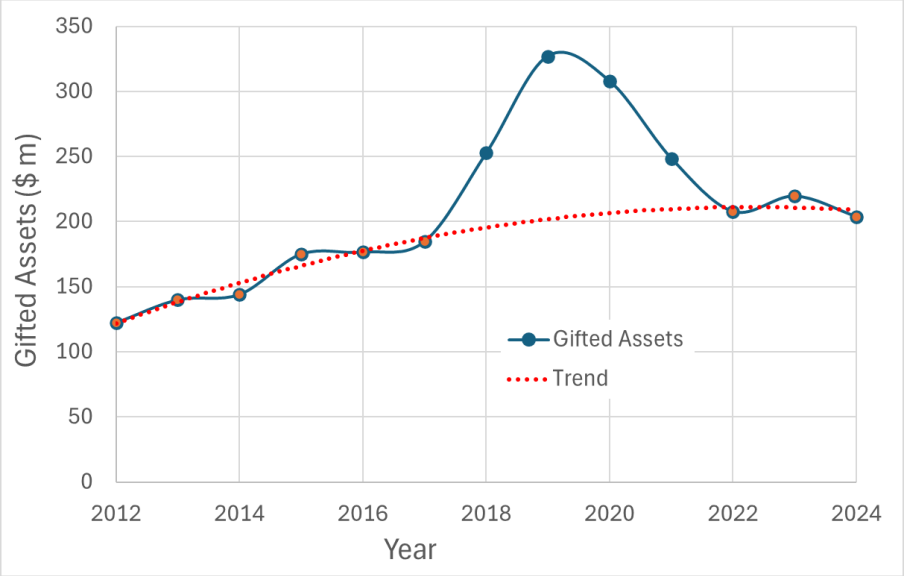

Figure 5: The value of gifted assets to Sydney Water in 2024-25 dollars

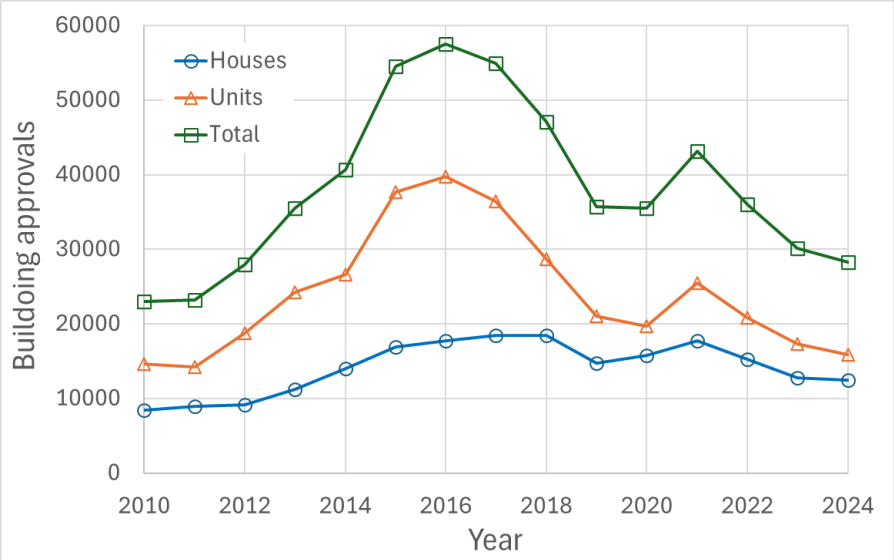

Figure 6: Building approvals for Greater Sydney

The payment of infrastructure contributions for new development also contributes to the costs of servicing new development.[15] These payments from developers to Sydney Water are expected to be greater than $1.24 billion during the 2025 regulatory period.

Developers (and new home owners) will provide more than $2.3 billion in assets and revenue to Sydney Water that will service new development. In combination with customer bills, more than $5.76 billion in additional revenue and assets are available to address Sydney Water's challenges during the 2025 regulatory period.

Climate change and population growth – Manageable impact

The proposals for large increases in expenses were also based on assumptions about increasing rates of climate change and population growth.

There are a range of different impacts of climate change on the operation of a water utility that should be carefully examined. Lower rainfall depths and the potential for more frequent droughts and floods impact on the availability of bulk water resources.

Increases in temperature can lead to higher water demands, lower catchment runoff and increases evaporation from regional water storages. These impacts are partially mitigated by reductions in household water demands, reduced leakage from water distribution networks and changes in the mix of dwelling types (units versus houses). Only small increases in regional water demands are observed and are expected.

We propose that ongoing changes in the mix of dwellings from houses in expanding growth corridors to lower impact units in existing areas will further mitigate the impacts of climate change and population growth.

[15] Sydney Water (2023), Infrastructure contributions, How we apply IPART's pricing method to calculate prices, version 1.3, November 2023

The reductions in water use and sewage flows from increasingly efficient properties will also significantly reduce future challenges and growth in expenses. These more efficient responses are driven by improved price signals provided by usage changes (reduced fixed tariffs), water efficient appliances and practices, and distributed water sources.

The proposals to augment the water supply with desalinated water and recycled wastewater for drinking water (purified recycled water) are based on the estimated decline in available water supply from regional catchments. The purified recycled water projects are subject to customer acceptance and involve substantial changes throughout the wastewater network.

The AtkinsRealis review identified that the estimated project expenses were dominated by large scale centralised strategies that are based on preliminary estimates of new types of projects by Sydney Water's external partners.[16] The magnitude and timing of the expenses are impacted by uncertainty about the estimated costs and allocation of risk scores (see discussion below).

The IPART draft decision balances the uncertainty of this requested expenditure with the equity impacts on customers. It accounts for water losses from network infrastructure and includes increasing water efficiency by Sydney Water and households.

A key insight from the Author's investigations is more than 70% of Sydney Water's total costs vary with demand and a higher level of usage charges with reduced fixed tariffs will address any uncertainty of impacts whilst providing equitable outcomes for customers.

The Author's work on the Sydney's water supply indicated that increases in temperature may results in marginally higher urban water demands. The increases in temperature may also by associated with higher rainfall intensity that could increase sewerage flows.

These potential increases in water demands and wet weather sewer flows are expected to be small for the relevant design event but may impact on the design and performance of water and sewage infrastructure. These impacts will mostly attribute to existing infrastructure and are dependent on the rate of change in temperature and rainfall intensity. These are ongoing incremental effects.

These incremental effects can be demonstrated by forecast global average temperature changes and generalised changes in rainfall depths provided by Australian Rainfall and Runoff (ARR2019).[17]

[16] AtkinsRealis (2025) IPART Sydney Water expenditure review (2025), 9 May 2025
[17] ARR2019 Datahub, https://data.arr-software.org/

For example, the expected incremental increase in global average temperatures is 0.03°C per year and the generalised relationship for changes in rainfall depths (intensity) since 1961 – 1990 is 10% in 2030 and 41% in 2100 for a 24 hour rainfall event.

The Gravity Sewerage Guideline of Australia estimates that 2% - 10% of rainfall are expected to enter sewage infrastructure.[18] As a consequence, the total increase in sewer volumes (and flowrates) from 1990 to 2030 is 1% and to 2100 is 4.1%. The incremental change during the 2025 regulatory period (2025 – 2030) is very small and the rainfall used by designers is more recent than records before 1990.

The importance of the challenges and the proposed magnitude of expenses require that Sydney Water should apply local weather and climate relationships to infrastructure planning. The Authors research reveals substantial spatial and temporal variation on weather and climate processes across Sydney urban and water supply catchments.[19]

The gradual increase in rainfall intensity from 24 hour storm events may increase wet weather flows in sewage infrastructure. However, these impacts will be mitigated by improved design, construction, maintenance, renewals and operational process during the same period.

This discussion indicates that the utility has experienced gradual increases in temperatures and rainfall intensities across multiple regulatory periods. There is no sudden and dramatic increase in these trends that justify large or step change increases in operating and capital costs.

It is expected that the challenges of climate change are accommodated across multiple regulatory periods by the water utility, the community and IPART.

Aging infrastructure

Another stated reason for increasing capital expenditure is the need to replace or upgrade aging infrastructure. A substantial increase in asset renewals is proposed.

The review by AtkinsRealis highlighted that Sydney Water has improved their approach to asset planning by implementing a risk based planning process.[20] However, the assignment of risk scores to infrastructure and application of the decision criteria was not clear.

No justification of chosen performance levels and associated cost benefit analysis was provided. The large increases in renewal budgets were more related to the accounting process that increased risks scores than assets reaching the end of life.

[18] Water Services Association Australia, Gravity sewerage code of Australia
[19] Coombes P.J., (2025), Utilising local rainfall intensity, temperature and storm tide relationships in systems frameworks to downscale climate change forecasts, In press
[20] AtkinsRealis (2025) IPART Sydney Water expenditure review (2025), 9 May 2025

The Author's review of risk based renewals in other jurisdictions has identified similar issues that substantially increase asset replacement budgets requested from regulators (and customers).[21] The draft IPART decision has acted to balance the magnitude of the requests for Sydney Water renewal budgets which are ultimately paid by customers.

Importantly, it is expected that the challenges of aging infrastructure are accommodated across multiple regulatory periods by the water utility, the community and IPART. In particular, the regulated allowances for depreciation, renewal, upgrades and operation expenses across a continuum of regulatory periods should provide for the management or replacement of aging assets. The aging process of water and sewage assets is gradual. Large or step change increases in costs are unusual.

[21] Coombes,P.J., (2025), Review of new customer contributions, Submission to the Victorian Essential Services Commission, 6 January 2025

3 Summary

The key proposal in this response to the IPART draft decision is a request for application of commercial prices to Building Owners that provide rental apartments in multi-unit buildings. This IPART direction will rectify the current inequitable process where the Building Owners provide all local services but receives a bill from Sydney for all services to rental apartments within the building.

It also requested that IPART make a ruling that Building Owner can seek payment from tenants for water use and sewage discharges based on meter readings at rental apartments within multi-unit buildings.

The proposed Sydney Water prices respond to the complex challenges of population growth, aging infrastructure and climate change. Strategies that are more risk adverse and included new solutions resulted in unprecedented increases in the requested prices. These higher prices were also motivated by uncertainty of future impacts.

These proposed prices were dominated by fixed tariffs that abandoned the principles of user pays pricing. There was limited opportunity for customers to manage their Sydney Water bill by reducing water use and sewage discharges.

A recent decision on developer infrastructure contributions also resulted in large increases in the costs of development with associated revenue collected by Sydney Water.

The IPART draft decision has acted to balance the future viability of Sydney Water and the impacts on household welfare. The application of user pays principles to water demands provides efficient price signals to both Sydney Water and customers. Unexpected increases in water demands will generate additional revenue to support Sydney Water's potential infrastructure responses.

In our view the level of prices proposed by IPART provides increased revenue in 2025 regulatory period that is more than adequate to support Sydney Water operations. Sydney Water can service new growth. The additional infrastructure and financial contributions from developers also make substantial contributions to servicing new growth. These costs are also passed on new customers.

We propose that the application of user pays pricing to sewer discharges (via water metering) will further improve the efficiency of Sydney Water prices.

About the Author

Professor Peter Coombes

Peter Coombes is a director of Urban Water Cycle Solutions, an honorary and visiting Professor in Crawford School of Public Policy at the Australian National University, a Fellow of Engineers Australia and Certified Practicing Engineer in Civil and Environmental Engineering, Leadership and Management at the Engineering Executive (EngExec) level. He was awarded the 2018 GN Alexander Medal for scientific contributions to Hydrology and Water Resources by Engineers Australia and the 2019 Presidents Medal for his role as a lead editor of the Urban Book of Australian Rainfall and Runoff. Peter holds a PhD in Civil and Environmental Engineering, degrees in Civil Engineering (Hons), Surveying (Hons) and Economics, and a Diploma of Legal Studies. He is a Registered Professional Engineer in Victoria (PE0007360) and has over 30 years experience in hydrology (surface and groundwater) and water resources.

Peter was recently the Associate Dean (Education) and Professor of Water Resources Engineering at Southern Cross University. He is a Member of Systems Research Steering Committee at Imperial College London and is an editor the Urban Book of Australian Rainfall and Runoff published by Engineers Australia. He has held senior academic positions at University of Newcastle, University of Melbourne and Swinburne University. Peter was a Chief Scientist in the Victorian Government and contributed to inquiries into stormwater management and flooding by the Senate of the Australian Parliament and into water resources by the Productivity Commission.

Peter was a managing director of Bonacci Water, a member of the water advisory group to the Prime Ministers Science, Engineering and Innovation Council, the advisory council on alternative water sources for the Victoria Government's Our Water Our Future policy, a member of the advisory panel on urban water resources to the National Water Commission, an advisor on alternative water policy to the United Nations and a national research leader of innovative WSUD strategies in the eWater CRC. He has generated over 250 scientific publications and designed more than 120 sustainable projects including settlements that generate all their water resources and manage flooding. Professor Coombes was also a co-author of Australian Runoff Quality and a former chair of the Stormwater Industry Association. More information can be found at http://urbanwatercyclesolutions.com.