

9 December 2024

Carmel Donnelly PSM
Chair
IPART
Level 16,
2-24 Rawson Place
SYDNEY NSW 2000

Submitted via "[Have Your Say](#)" on IPART website

Dear Carmel,

Re: coNEXA's submission to Prices for Sydney Water Corporation from 1 July 2025

Thank you for the opportunity to provide a submission to IPART's current review of Sydney Water's prices.

Please find attached:

- **our submission;** and
- **a confidential attachment to this submission.**

We ask that IPART considers our submission in making its determination of Sydney Water's prices, and that it also considers elements of our submission that relate more broadly to IPART's role in regulating Sydney Water's prices and performance in the long-term interests of customers.

We would welcome the opportunity to discuss our submission further or clarify elements of our submission as necessary.

Yours sincerely,



SUBMISSION

In this submission, we highlight and explain our concerns with key elements of Sydney Water's Pricing Proposal, specifically how it undermines efficient investment in water recycling and other conservation measures, as well as competition, and would therefore be inconsistent with lowering system wide costs and maximising value to customers over the long-term. We also provide our recommendations for addressing these concerns.

Overview

IPART's Issues Paper notes that under section 15 of the IPART Act it is required to consider a range of matters when setting water prices. We are concerned that key elements of Sydney Water's pricing proposal are inconsistent with these matters and the long-term interests of customers. Specifically, the structure of Sydney Water's proposed prices does **not** promote:

- economic efficiency;
- environmentally sustainable development;
- efficient demand management and least cost planning;
- competition in the supply of water and wastewater services; and
- outcomes that are in the long-term interests of customers.

We are also concerned that, in presenting its proposed expenditure program which underpins its prices, Sydney Water has not considered opportunities for private investment to adjust project timelines to minimise price impacts and to reduce the proposed capital programs in line with least cost planning principles.

As outlined in further detail below, we are concerned that:

- 1) **Sydney Water's proposed structure of water pricing (high fixed / low variable) is not focussed on long term outcomes and not aligned with user pays principles**, given it is not based on reasonable estimates of the Long Run Marginal Cost (LRMC) of supply which align to the Greater Sydney Water Strategy or strong evidence of customer preferences. This approach will not promote efficient water investment or consumption, including in water conservation, leakage reduction and recycling. Through a ~400% increase in the service charge, Sydney Water has proposed increasing the proportion of the fixed component of a customer's bill from 13% to 54% (for a 200kL customer in 2029-2030), despite direct and specific customer preferences to the contrary. Sydney Water's own customer engagement shows that customers consider that a larger portion of the bill should be variable based on usage, to give them greater control over their bills and be consistent with the 'user pays' principle. This is also consistent with the feedback provided by Hunter Water's customers.¹
- 2) **Sydney Water's proposed wastewater usage price (variable) is not reflective of the current state of the wastewater network**, given it has proposed significant investment in water recycling on the basis that it reduces wastewater volumes in its capacity constrained wastewater network (and therefore defers or

¹ Hunter Water's pricing proposal noted that customers "demonstrated a preference to have a high degree of control over water bills and encourage water conservation but showed consideration to the impacts on specific customer groups (e.g. tenants and large households). Our proposed balance between variable water usage, and fixed water service charges, aligns with our customer preference." Hunter Water, 2024 Pricing Proposal, September 2024, p22.

avoids substantial costs). Similar to water charges, Sydney Water proposes to recover the large increase in wastewater costs from fixed service charges. Sydney Water states the Long Run Marginal Cost (LRMC) of wastewater service supply is close to its Short Run Marginal Cost (SRMC) of processing, which implies there is little to no capacity constraints and that growth in volumes does not drive the costs of augmentation in capacity (contrary to the rationale for its proposed recycled water investment), and is unable to provide estimates of LRMC. This creates a disconnect between pricing signals for investment and use of the wastewater network, including signals for investment in recycling and the avoided cost estimates used in business case evaluation of recycling projects. As IPART has previously stated in its 2019 Final Report on its recycled water framework, these signals should align and preferably be guided by estimates of the LRMC.

- 3) **Sydney Water’s service charges for water (fixed) do not recognise the reduced draw on its network of customers who are also serviced by recycled water schemes** where peak demand is oftent met by non-potable water. This can impede competition and the uptake of cost-effective water recycling.
- 4) **Sydney Water’s proposal to recover stormwater costs from wastewater customers is not cost-reflective, transparent or fair and reasonable**, and Sydney Water has provided no basis to support its assertion that its proposal is consistent with National Water Initiative (NWI) Pricing Principles.
- 5) **Sydney Water’s proposal does not contemplate nor promote efficient competition and least cost planning which would be in the long-term interests of all customers.** Sydney Water’s broad use of cross subsidies and poor price signalling prevents the efficient entry of competition which would otherwise lower costs for all Sydney Water customers.

We recommend that IPART:

- **Increases Sydney Water’s water usage price (variable) to a level that better reflects the value of water, with reference to sound estimates of the LRMC of water supply**, noting that this would be offset by a reduction to Sydney Water’s fixed water service charges and be consistent with customer preferences for greater control over their bills (which is particularly important given cost-of-living pressures) and user pays pricing.
- **Require Sydney Water to calculate robust estimates of its LRMC of wastewater service supply by catchment and sets Sydney Water’s wastewater usage price to transition towards LRMC over time** to align pricing signals for investment and use and provide consistent information to the market about the value of potential avoided costs from reduced use and/or wastewater recycling.
- **Allow for lower water service charges for Sydney Water’s customers who are also supplied recycled water**, to reflect those customers’ lower share of peak network capacity. Providing a fair incentive for customers to switch to or maintain a recycled water supply would benefit all customers.
- **Clarifies which portion of Sydney Water’s stormwater costs are for stormwater management services and which portion are for recycled water supply.** Sydney Water’s prices should then be set to recover its efficient stormwater management costs from stormwater customers and stormwater reuse costs from reuse customers, consistent with the principles of cost reflectivity, transparency and IPART’s impactor pays framework (including, where applicable, its recycled water pricing and cost recovery framework).

We also note the NSW Government’s request to IPART to consider opportunities to adjust project timelines to minimise price impacts and to reduce the proposed capital programs in line with least cost planning principles. Given this, together with:

- the important role of competition in delivering innovative new integrated water cycle management solutions, in lowering system-wide costs and enhancing services to customers over the long-term (as recognised by the Water Industry Competition Act); and
- and Sydney Water's powerful market position,

we also recommend that where necessary IPART **provides greater oversight over Sydney Water's:**

- **negotiations for supply to WIC Act licensees** (eg, in relation to wholesale services, access to effluent for sewer mining and recycling on appropriate terms), to ensure that Sydney Water allows for the most efficient servicing solution to eventuate (regardless of whether it is supplied by Sydney Water).
- **dispute mechanisms** whereby there is a clear mechanism for IPART to arbitrate disputes around sewer mining and / or challenges in good faith negotiations.
- **developer charges**, to ensure they are cost-reflective, consistent with IPART's methodology and promote (rather than impede) efficient competition in the supply of services to new development areas. Any subsidies from the broader customer base for growth assets, should also be available to WIC licence holders where this results in an overall reduction in costs / reduction of subsidy.
- **options analysis**, to ensure that Sydney Water explores all viable options to service growth (including those delivered by WIC Act licensees) and employs the option that represents greater value to customers.

The confidential attachment provided herein provides more information on our concerns and recommendations, together with specific examples.

ENDS