

7 September 2015

## WHAT

IPART has begun its review of prices that Sydney Water can charge for its:

- ▼ water
- ▼ wastewater (sewerage), and
- ▼ stormwater drainage services.

We will also set prices for trade waste services and a range of ancillary and miscellaneous services; decide whether to set charges for wholesale water services; and monitor recycled water prices.

## WHY

Prices set for Sydney Water at our last review conclude on 30 June 2016. The new prices will apply from 1 July 2016.

Sydney Water's pricing proposal is available on our website [here](#).

IPART's Issues Paper summarises and responds to Sydney Water's price proposal.

IPART is seeking views from the public and stakeholders on issues for the review, which are detailed in the [Issues Paper](#).

## HOW

IPART has an established way of conducting a price review. Consultants assist us to review Sydney Water's capital and operating expenditure proposals. We then set prices to raise the revenue Sydney Water requires to recover its prudent and efficient costs.

We also make decisions on:

- ▼ Length of time for which we set prices.
- ▼ Forecast water sales and customer numbers.

- ▼ How to address risks and other uncertainties that Sydney Water faces.
- ▼ How to incorporate efficiencies or other benefits for customers.

Finally, we consider the impacts of these decisions on Sydney Water, customers and other stakeholders.

## WHEN

The key dates for this price review are:

- ▼ 5 October 2015 – Submissions due in response to the Issues Paper
- ▼ 10 November 2015 – Public Hearing
- ▼ late-March 2016 – IPART releases Draft Report and Draft Determination
- ▼ mid-April 2016 – Submissions due in response to the Draft Report
- ▼ mid-June 2016 – IPART releases Final Report and Determination
- ▼ 1 July 2016 – New prices take effect.

## WHAT NEXT

Submissions are due by 5 October 2015.

We prefer submissions via our online [form](#). You can also send comments by fax to (02) 9290 2061, or by mail to:

### **Review of prices for Sydney Water**

Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop NSW 1240

Unless they are identified as confidential, we plan to put all submissions on our website soon after the closing date for submissions.

## 1 Sydney Water's pricing proposal

Sydney Water has submitted its pricing proposal to IPART for new prices for its water, wastewater, stormwater drainage and other services to apply from 1 July 2016.

### Sydney Water's pricing proposal at a glance

Sydney Water proposed a revenue requirement of \$9.7 billion over the 4-year period 2016-17 to 2019-20. This is \$600 million lower than the revenue allowed for in the 2012 Determination (\$10.3 billion), which covered the 4-year period from 2012-13 to 2015-16.

### Sydney Water's proposed prices for major services

Sydney Water has proposed that its prices for water, wastewater and stormwater drainage services would either fall or remain unchanged in real terms in 2016-17 compared to current prices, and remain flat in real terms (ie, excluding inflation) over the 4-year period.

**Table 1 Sydney Water's proposed prices for major services from 1 July 2016 (\$2015-16)**

	2015-16 <sup>1</sup>	2016-17	2017-18	2018-19	2019-20
<b>Water</b>					
Usage charge (\$/kL)	2.29	1.97	1.97	1.97	1.97
<i>Annual change</i>		-13.9%	0.0%	0.0%	0.0%
Residential service charge	103.55	98.52	98.52	98.52	98.52
<i>Annual change</i>		-4.9%	0.0%	0.0%	0.0%
20mm non-residential service charge	131.12 <sup>2</sup>	98.52	98.52	98.52	98.52
<i>Annual change</i>		-24.9%	0.0%	0.0%	0.0%
<b>Wastewater</b>					
Usage charge (\$/kL)	1.10	1.10	1.10	1.10	1.10
<i>Annual change</i>		0.0%	0.0%	0.0%	0.0%
Residential service charge	612.10	582.34	582.34	582.34	582.34
<i>Annual change</i>		-4.9%	0.0%	0.0%	0.0%
20mm non-residential service charge	1,047.74 <sup>2</sup>	582.34	582.34	582.34	582.34
<i>Annual change</i>		-44.4%	0.0%	0.0%	0.0%
<b>Stormwater</b>					
Apartments and small non-residential	31.70	30.79	29.90	29.04	28.21
<i>Annual change</i>		-2.9%	-2.9%	-2.9%	-2.9%
Houses and medium non-residential	86.44	83.96	81.54	79.20	76.92
<i>Annual change</i>		-2.9%	-2.9%	-2.9%	-2.9%
Large non-residential	432.22	419.80	407.73	396.01	384.63
<i>Annual change</i>		-2.9%	-2.9%	-2.9%	-2.9%

**Source:** Sydney Water pricing proposal to IPART, June 2015, p 100 and Sydney water's annual information return, June 2015.

<sup>1</sup> 2015-16 prices were not available when Sydney Water finalised its pricing proposal. The prices for 2015-16 are Sydney Water estimates based on forecast inflation.

<sup>2</sup> Under the 2012 Determination, 20mm standalone non-residential customers paid the residential service charges. From 2016-17, Sydney Water's proposal will see them charged the same as other non-residential customers with 20mm meters.

## Sydney Water's proposed impact on bills

Sydney Water indicated that under its pricing proposal, average annual residential water and wastewater bills would be:

- ▼ \$1,114 a year for customers with a free-standing house who use 220 kL of water a year. This is \$105 or 8.6% lower than the average bill for these customers in 2015-16.
- ▼ \$996 a year for customers with an apartment who use 160 kL of water a year. This is \$86 or 7.9% lower than the average bill for these customers in 2015-16.

Non-residential customers' bill impacts depend on their meter size and discharge factors as well as their water and wastewater usage. Sydney Water modelled the impact of its proposed prices on different types of non-residential customers, and found that approximately 43% would see a reduction of up to 10% on their annual bill in 2016-17 (in real terms). A small proportion (about 6.5%) of non-residential customers would experience greater reductions (35% to 39%).

### Cost drivers

In its proposal, Sydney Water attributed its proposed reduction in its revenue requirement (and average annual water and wastewater bills) for the 2016 determination period to the following factors:

- ▼ the expected low interest rate environment and resulting decrease in its cost of capital
- ▼ realised and forecast savings in its operating and capital expenditure
- ▼ a reduction in its forecast bulk water purchase costs, due primarily to an expected decrease in WaterNSW's<sup>3</sup> cost of capital, and
- ▼ an increase in its forecast customer water demand.

According to Sydney Water, just over 30% of the average savings it proposes to pass on to customers is driven by efficiency savings within its control, and just under 70% stems from external factors beyond its control. The single most important driver of these savings is the decrease in its forecast real Weighted Average Cost of Capital (WACC) from 5.6% to 4.6%, which accounts for 52% of the overall reduction in customer bills.

Sydney Water indicated that the proposed reduction in its revenue requirement will not affect its performance. It expects to maintain high customer service standards and its customer assistance programs, and continue to meet licence conditions in servicing rising levels of forecast demand and growth. It also expects to maintain its current Baa1 credit rating under the proposed prices and revenues.

<sup>3</sup> Formally called the Sydney Catchment Authority. IPART is conducting a review of WaterNSW's charges concurrently with the Sydney Water price review.

## 2 IPART would like to hear your views

IPART is seeking the public and other stakeholders to share their views on a number of issues regarding Sydney Water's price review. The following issues have been selected from the Issues Paper as being particularly relevant to Sydney Water consumers.

### Consumer related issues from the Issues Paper for comment

<b>Service level</b>	Are there any service improvements that you would like Sydney Water to make?
<b>Prices and bills</b> (See issue 41)	Sydney Water proposed a water usage charge of \$1.97 per kL. Do you prefer greater bill certainty (ie, a higher fixed water service charge) or greater bill control (ie, a higher water usage price)?
<b>Sydney desalination plant activates</b> (See issue 43)	If the Sydney Desalination Plant switches on, Sydney Water's bulk water costs will increase. To recover this additional cost, would you prefer to have an increase in the water service charge only (as done in the past) or an increase in the water usage charge?
<b>Rebase water and wastewater (sewerage) service charges</b> (See issue 36)	<p>This involves deeming all residential dwellings (regardless of type) to have a 20mm meter and changing the current base for non-residential meter-based charges to a 20mm (from 25mm) meter.</p> <p>Our view is to accept Sydney Water's proposal to rebase water and wastewater (sewerage) service charges on this basis. It is a simple price structure for customers to understand and for Sydney Water to administer. It would also correct an anomaly, whereby non-residential customers with a single individual 20mm meter pay a different fixed charge (per meter) to those with multiple 20mm meters.</p> <p>Under this approach, a residential customer with a deemed 20mm meter would contribute the same amount to Sydney Water's costs as a non-residential customer with a 20mm meter (or equivalent). This is why Sydney Water's proposed reductions to service charges for non-residential customers are significantly larger than those for residential customers.</p> <p>Should we rebase water and wastewater service charges?</p>
<b>Discharge allowance for non-residential customers</b> (See issue 37)	<p>Wastewater usage charges apply to non-residential customers who exceed a specified discharge allowance.</p> <p>Sydney Water proposed fixing the discharge allowance at the current level of 300 kL per year. It indicated that lowering it to 150 kL per year would result in a 29% increase in the number of customers billed an explicit wastewater usage charge and produce a 6% increase in the chargeable volume.</p> <p>Our view would be to continue to reduce the discharge allowance for non-residential customers to 150 kL per year, as proposed in the 2012 Determination. This would remove cross subsidies:</p> <ul style="list-style-type: none"> <li>▼ small businesses (discharging less than 150 kL per year) would no longer be subsidising medium to large businesses (discharging more than 150 kL per year), and</li> <li>▼ small businesses would be charged on a consistent basis with residential customers (given their discharge of about 150 kL per year)</li> </ul> <p>Further, the costs associated with a deemed 150 kL per year discharge allowance for residential and non-residential customers should be explicitly added to their service charges as the final step in calculating these charges. This would ensure that non-residential customers with larger meter connections do not pay more than their share of costs.</p> <p>Should the discharge allowance for non-residential customers be 300 kL or 150 kL per year?</p>

<p><b>Wastewater usage charge</b> (See issue 46)</p>	<p>Currently, explicit wastewater usage charges do not apply to residential customers. However, residential customers discharging wastewater into the system impose costs on the system. These costs are recovered implicitly through wastewater fixed service charges (ie, based on an assumed 150 kL of discharge per year, per customer).</p> <p>The user pays principles supporting a water usage charge could apply equally to wastewater. If a wastewater usage charge were to apply to all residential customers, fixed service charges would decrease. Customers with low usage would face a reduction in their overall wastewater bill, while overall bills would increase for large users.</p> <p>Should residential customers pay a wastewater usage charge and a fixed service charge, rather than paying the costs of residential discharges implicitly through a higher fixed service charge?</p>
<p><b>Joint service arrangements</b> (See issue 38)</p>	<p>A joint service is where a single connection to Sydney Water's network serves more than one unrelated property. The first property typically has a water meter that is connected to Sydney Water's network (metered property), and the dependent property uses a private pipe connected to the first property's connection (unmetered properties).</p> <p>Sydney Water proposed to apply the normal meter-based water and wastewater charges to the metered non-residential multi-premises and the second unmetered (or dependent) multi-premises would receive a 'base' water and wastewater service charge determined by IPART.</p> <p>Currently, these joint service arrangements are billed essentially as one multi-premises. That is, the metered multi-premises is charged one meter-based water and wastewater service charge, which is then divided among the occupants of both the metered and unmetered (or dependent) properties.</p> <p>Do you agree with Sydney Water's proposed charges to joint service arrangements? How should joint service arrangements be charged?</p>
<p><b>Dual occupancy arrangements</b> (See issue 39)</p>	<p>A dual occupancy is where the property owner creates a second dwelling that typically has its own entrance and facilities (like a 'granny flat'). The two dwellings are linked by the owner and cannot be independently sold.</p> <p>Sydney Water proposed to apply only one water and one wastewater service charge to each dual occupancy property.</p> <p>Currently, dual occupancies are charged as two separate properties. That is, under the 2012 Determination, the main dwelling and the secondary dwelling each attract a water service charge and a wastewater service charge.</p> <p>Should dual occupancies be charged a single water service charge and a wastewater service charge; or treated as two distinct properties, each attracting a water and wastewater service charge?</p>
<p><b>Service charge name change</b> (See issue 40)</p>	<p>Some customers are confused with the meaning of the 'service charge'. Our preferred option is 'availability charge', as this seems to best indicate that the fixed component of a bill represents customers' ability to use the system (ie, that they are connected to the system), rather than actual use of the system.</p> <p>What is the most appropriate name for the current fixed 'service charge'?</p>
<p><b>Rouse Hill stormwater drainage charges</b> (See issue 54 and 55)</p>	<p>There are currently two charges relating to the stormwater drainage system in Rouse Hill:</p> <ul style="list-style-type: none"> <li>▼ Rouse Hill stormwater drainage charge, which Sydney Water has proposed to maintain in real terms at \$140.33 per year. This charge is levied on all properties in the Rouse Hill stormwater area and recovers the operating costs of the system.</li> <li>▼ Rouse Hill land charge, which Sydney Water has proposed to maintain in real terms at \$249.97 per year. The land charge is levied on new properties in the Rouse Hill stormwater area, and recovers land</li> </ul>

	<p>acquisition costs for the system.</p> <p>To maintain the land charge at its current level, Sydney Water has proposed that \$17.1 million in unforeseen land acquisition costs be recovered by all wastewater customers.</p> <p>Our preliminary position is if the costs of land acquisition for the Rouse Hill stormwater drainage system are not borne fully by new Rouse Hill residents, Sydney Water should bear those costs.</p> <p>Who should pay the additional costs of land acquisition for the stormwater drainage system in Rouse Hill?</p>
<p><b>Late payment fee</b> (See issue 51 and 52)</p>	<p>Sydney Water proposed to introduce a cost-reflective late payment fee of \$4.10 or interest accrued to overdue bills (whichever is the greater).</p> <p>Sydney Water has indicated that it will not charge the late payment fee until a bill is 28 days overdue. In addition, it will notify customers about the fee on bills and in other public materials.</p> <p>To protect customers experiencing financial hardship, it has proposed not to charge a late payment fee where:</p> <ul style="list-style-type: none"> <li>▼ there is a billing matter being considered by the Energy and Water Ombudsman NSW (EWON)</li> <li>▼ the customer has made an arrangement to pay by instalments or another payment plan</li> <li>▼ part of the bill is being paid using its payment assistance scheme</li> <li>▼ it is aware that the customer has sought assistance from a community welfare organisation that is part of the payment assistance scheme</li> <li>▼ the customer is registered with its BillAssist program</li> <li>▼ the customer has been identified as being in hardship</li> <li>▼ the customer pays by Direct debit, or</li> <li>▼ EWON has asked it to waive the fee.</li> </ul> <p>These measures would be in addition to Sydney Water's current policies, including concessions for pensioners.</p> <p>Our preliminary view is that Sydney Water's proposal appears to comply with the provisions of its operating licence. However, we seek comments from stakeholders on whether Sydney Water's proposed fee is cost reflective. We will also consider the terms and conditions for charging the fee and whether Sydney Water's list of excluded customers is appropriate.</p> <p>Is Sydney Water's proposed late payment fee reasonable?</p>
<p><b>Pricing flexibility</b> (See issue 30)</p>	<p>Sydney Water proposed a Weighted Average Price Cap (WAPC) that would allow flexibility to (a) charge different customers different prices and (b) vary prices during the regulatory period. This pricing flexibility would be limited by a 'cap'.</p> <p>We are open to introducing a WAPC to large non-residential customers, from Year 2 of the next regulatory period. We are also considering an option where large non-residential customers would have the choice to opt in to alternative prices offered by Sydney Water under the WAPC or to remain with the prices set by IPART for each year.</p> <p>Should a WAPC apply at first only to large non-residential customers? Should it apply to both water and wastewater services?</p>