

# Sydney Water price review – non-residential customers



14 June 2016



## WHAT

IPART has published its decisions on Sydney Water's prices for water, wastewater, stormwater and other services.

These prices will apply from 1 July 2016 to 30 June 2020 (the 2016 determination period).

**Our prices result in bill decreases for most non-residential customers in 2016-17.**

In later years, some customers will see their bills increase above inflation as we make wastewater (sewerage) charges more cost-reflective and consistent across customers.

Large non-residential customers will be able to enter into unregulated pricing agreements with Sydney Water. Details can be found in a separate Fact Sheet.

We have also specified a new late payment fee and dishonoured or declined payment fee. Details can be found in a separate Fact Sheet.



## WHY

Our prices reflect, among other amendments, the reduction in Sydney Water's allowance for capital and operating expenditure over the determination period.

We have made changes to Sydney Water's price structures to ensure that water and wastewater charges are more cost reflective so that customers groups imposing similar costs on the system are treated consistently.

Our prices also ensure customers pay no more than is necessary for the services they need.

Most prices will either remain unchanged or decrease in 2016-17. Prices will increase with inflation in subsequent years of the determination period.



## HOW

IPART has followed its established price review process, undertaking an extensive investigation and public consultation. In making our decisions, we have considered all submissions received through the review.

We engaged independent consultants to review Sydney Water's capital and operating expenditure proposals (the report can be found [here](#)).

We then set prices to allow Sydney Water to raise the revenue it requires to recover the prudent and efficient costs of delivering its services.



## WHEN

New prices take effect on 1 July 2016.



## LEARN MORE

Our reports, stakeholder submissions, the transcript from the public hearing, and consultants' reports are available on our website ([www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)).

The Final Report and Determination can be accessed [here](#).

# Sydney Water price review – non-residential customers



## Bills for most non-residential customers will decrease

The impact on non-residential customers' bills of our price determination depends on their water usage, estimated volume of wastewater discharged to the sewerage system and meter size(s). **In general, non-residential customers will see decreases in their annual water and wastewater bills in 2016-17, with decreases ranging from 4.8% to 31.0%** depending on each customer's characteristics.

In subsequent years, some non-residential customers will see their bills increase above the rate of inflation, as we make wastewater usage and service charges more cost-reflective and consistent across customers.

**Small businesses with a discharge factor of 75% will experience similar bill reductions to residential customers.** By 2019-20, these customers will save \$12 on their bill compared to their bill in 2015-16 (including the effects of inflation).

**By 2019-20, bills will increase for small businesses that discharge more wastewater to the sewerage network than residential customers.** For example:

- ▼ Small businesses with a discharge factor of 78% will pay \$13 more in 2019-20 than in 2015-16 (including inflation).
- ▼ Small businesses with a discharge factor of 83% will pay \$55 more in 2019-20 than in 2015-16 (including inflation).

Table 1 shows the bills under our prices for small businesses (assuming that these customers are on a standalone 20mm meter) using different discharge factors.

**Table 1 Small business water and wastewater bills – including inflation**

Non-residential stand-alone 20mm meter	2015-16 <sup>a</sup>	2016-17	2017-18	2018-19	2019-20	Change 2016-20
<b>200 kL pa water usage</b>						
75% discharge factor	1,167	1,073	1,099	1,127	1,155	-12
<i>Annual change</i>		-8.1%	2.5%	2.5%	2.5%	-1.0%
78% discharge factor	1,167	1,089	1,117	1,151	1,180	13
<i>Annual change</i>		-6.7%	2.5%	3.1%	2.5%	1.1%
83% discharge factor	1,167	1,117	1,145	1,192	1,222	55
<i>Annual change</i>		-4.3%	2.5%	4.1%	2.5%	4.7%
<b>310 kL pa water usage</b>						
83% discharge factor	1,418	1,345	1,435	1,530	1,568	151
<i>Annual change</i>		-5.1%	6.7%	6.6%	2.5%	10.6%

<sup>a</sup> 2015-16 prices were not available when Sydney Water finalised its pricing proposal. The bills for 2015-16 have been updated to reflect actual inflation and prices.

**Note:** Inflation is estimated to be 2.5% per annum over the 2016 period, except for 2016-17 where it is set as 1.3%. Total may not add due to rounding.

We have made changes to Sydney Water's price structures. These ensure that wastewater charges are more cost reflective, so customers groups imposing similar costs on the system are treated consistently.

## Our changes to price structures mean cost reflective treatment of Sydney Water's customers

### Wastewater service charges

Wastewater service charges predominantly recover fixed costs, reflecting a customer's ability to access the system (ie, that they are connected to the system). Estimating a customer's draw on the wastewater system is problematic because, unlike water, wastewater is not metered. Wastewater charges are, therefore, based on a customer's water meter size multiplied by a discharge factor. The discharge factor is the percentage of metered water consumption that is estimated to be discharged to the wastewater (or sewerage) system.

For the 2016 Determination, we have applied a 75% discharge factor to the wastewater service charge for residential customers (ie, residential customers pay 75% of the base 20mm meter service charge). For non-residential customers, Sydney Water has specific discharge factors that it determines based on the nature of the business and the amount of wastewater that it is likely to discharge.

Discharge factors have previously applied to all non-residential customers, except 20mm standalone customers who were charged the same as residential customers. Where a discharge factor has not been previously assigned to a non-residential customer (ie, 20mm meter standalone customers), Sydney Water states it will apply a default discharge factor of 78%<sup>1</sup>.

We consider it important that Sydney Water clearly communicates where the discharge factor is greater than 75% for non-residential customers with a 20mm connection (ie, small businesses).

### Wastewater usage charges

Non-residential customers that discharge more than the discharge allowance pay a wastewater usage charge. Currently, the discharge allowance is set at 300 kL per annum.

We consider it appropriate that the discharge allowances for residential and non-residential customers are the same. Going forward, all wastewater service charges will include the cost of a fixed discharge allowance of 150 kL (ie, a deemed wastewater usage component of \$165 is included in the wastewater service charge). This reflects a residential customer's average annual wastewater discharge.

We have therefore reduced the non-residential discharge allowance from 300 kL to 150 kL by 2018-19 (ie, by 50 kL increments per year), after which it would remain at this level.

## Water and wastewater prices are decreasing

**Water usage charges will reduce by \$0.31 per kL to \$1.97 per kL (excluding inflation).** Our decision accords with Sydney Water's proposal, ensures customers have greater control over bills and moves towards our best estimate of the current long-term costs of water supply.

**Wastewater usage charges remain unchanged at \$1.10 per kL (excluding inflation).** Our decision accords with Sydney Water's proposal.

**Most water and wastewater service charges will decrease in 2016-17 and then increase by inflation.** In 2016-17, the 20mm meter water service charge will be \$88.80, a decrease of about \$14 or 13.4% (excluding inflation).

<sup>1</sup> IPART conducted a review of discharge factors in 2014. In it, we decided to "maintain our current approach of using the discharge factors as set by the water utilities" IPART, Discharge factors for non-residential customers, December 2014, p 3; Sydney Water, Customer Policy - Sewerage usage charging for non-residential customers, Sydney Water website, Last updated 8 March 2013, p 3.

Small businesses (ie, 20mm meter standalone customers) with discharge factors of 75% will face the same wastewater charges and reductions as residential customers. However, those standalone small businesses with discharge factors greater than 75% will face higher wastewater service charges than residential customers.

Small businesses with common 20mm meters will face large reductions in wastewater service charges. This is because they now pay the same metered connection charges (ie, as presented in Table 2) as standalone non-residential customers with 20mm meters.

Our prices are outlined in Table 2 below.

**Table 2 Prices for major services from 1 July 2016 (\$2015-16) – excluding inflation**

	2015-16 <sup>a</sup>	2016-17	2017-18	2018-19	2019-20	% Change
<b>Water</b>						
Usage charge (\$/kL)	2.28	1.97	1.97	1.97	1.97	-13.5%
Service charge (\$/year)						
– Residential	102.53	88.80	88.80	88.80	88.80	-13.4%
– Non-residential service charge 20mm	129.83 <sup>b</sup>	88.80	88.80	88.80	88.80	-31.6%
<b>Wastewater</b>						
Usage charge (\$/kL)	1.10	1.10	1.10	1.10	1.10	0.0%
Service charge (\$/year)						
– Residential <sup>c</sup>	609.14	576.10	576.10	576.10	576.10	-5.4%
– Non-residential (stand-alone 20mm meter) 75% discharge factor <sup>d</sup>	609.14	576.10	576.10	576.10	576.10	-5.4%
– Non-residential (stand-alone 20mm meter) 81% discharge factor <sup>d</sup>	609.14	609.14	609.14	609.14	609.14	0.0%
– Non-residential (common 20mm meter) 81% discharge factor <sup>d</sup>	1,042.67 <sup>b</sup>	609.14	609.14	609.14	609.14	-41.6%

<sup>a</sup> 2015-16 prices were not available when Sydney Water finalised its pricing proposal. The prices for 2015-16 have been updated to reflect actual inflation and prices.

<sup>b</sup> This service charge applied to non-residential customers on a shared meter or with multiple 20mm meters. Under the 2012 Determination, 20mm standalone non-residential customers paid the residential service charges instead, which was \$609.14 in 2015-16. From 2016-17, these customers will be charged the same as other non-residential customers with 20mm meters.

<sup>c</sup> Residential wastewater service charge is the sum of the 20mm equivalent meter charge of \$548.13 multiplied by the residential discharge factor of 75%, and the 150 kL of deemed wastewater usage of \$165.

<sup>d</sup> The 20mm non-residential wastewater service charges include 150 kL of deemed usage of \$165.

**Note:** Total may not add due to rounding.

## Customers will pay more for water in times of drought

If desalinated water is supplied to Sydney Water from the Sydney Desalination Plant (SDP), the water usage charge will increase by \$0.12 per kL (excluding inflation) while SDP is operating.

Within water bills, all customers pay, on average, \$94 per year (excluding the effects of inflation) to cover the fixed costs of SDP while it is in shutdown mode.

For a typical small business, the costs of SDP operating will add about a further \$26 to their annual bill (excluding inflation). Large users of water (ie, large non-residential customers) will pay proportionately more.

### Stormwater prices will continue to move to area-based charges

Only some customers fall within Sydney Water's stormwater area and therefore pay stormwater charges to Sydney Water.<sup>2</sup> Local councils, rather than Sydney Water, are the main providers of stormwater services in the Sydney area.

Stormwater service charges will continue to transition to area-based charges. As a result, prices for large non-residential customers will remain constant over the determination period (excluding the effects of inflation).

However, prices for small, multi-premise, medium and low-impact non-residential customers will decrease in 2016-17, and then remain constant for the remaining three years of the determination period (excluding the effects of inflation). Stormwater service charges for small and multi-premise customers will decrease from \$31.55 to \$23.04 in 2016-17 and for medium and low-impact customers from \$86.02 to \$73.81.

**Table 3 Prices for major services from 1 July 2016 (\$2015-16) – excluding inflation**

	2015-16 <sup>a</sup>	2016-17	2017-18	2018-19	2019-20
<b>Stormwater</b>					
Small and multi premise non-residential (\$/year)	31.55	23.04	23.04	23.04	23.04
<i>Annual change</i>		-27.0%	0.0%	0.0%	0.0%
Medium and low-impact non-residential (\$/year)	86.02	73.81	73.81	73.81	73.81
<i>Annual change</i>		-14.2%	0.0%	0.0%	0.0%
Large non-residential (\$/year)	430.12	430.12	430.12	430.12	430.12
<i>Annual change</i>		0.0%	0.0%	0.0%	0.0%
Very large non-residential (\$/year)	1,911.67	1,911.67	1,911.67	1,911.67	1,911.67
<i>Annual change</i>		0.0%	0.0%	0.0%	0.0%
Largest non-residential (\$/year)	4,779.19	4,779.19	4,779.19	4,779.19	4,779.19
<i>Annual change</i>		0.0%	0.0%	0.0%	0.0%

<sup>a</sup> 2015-16 prices were not available when Sydney Water finalised its pricing proposal. The prices for 2015-16 have been updated to reflect actual inflation and prices.

### Rouse Hill charges

We have accepted Sydney Water's proposal to maintain the **Rouse Hill stormwater drainage charge** in real terms at \$139.65 per year for residential and non-residential properties less than or equal to 1,000m<sup>2</sup>.

<sup>2</sup> According to Sydney Water, this area covers 30 Local Government areas, and generally includes the central business district and inner west of Sydney. It provides stormwater drainage services to around 548,000 residential and non-residential properties (2015-16), which we estimate to represent around 28.6% of the 1.9 million properties that it supplies water services to (2015-16). Sydney water pricing proposal to IPART, June 2015, p 52 and Sydney water pricing proposal to IPART - Appendices, June 2015, p 48.

We have not accepted Sydney Water's proposal for the **Rouse Hill land charge** to remain at \$248.85 per year in real terms over the 2016 determination period. To maintain the current charge, Sydney Water argued that the additional land purchase costs in the Rouse Hill stormwater catchment area should be recovered entirely from its broader wastewater customer base (through wastewater charges).

We consider that the cost reflective level of the Rouse Hill land charge is \$433.37. This would share the capital costs (both land and civil works) for Rouse Hill equally between residents in Rouse Hill and Sydney Water's broader customer base. This reflects the integrated water management system in Rouse Hill, which performs dual stormwater (specific to Rouse Hill) and wastewater functions (costs to be shared across Sydney).

However, to limit bill impacts, we have decided to transition the Rouse Hill land charge towards cost reflective levels by increasing the current charge by 10% per year over the 2016 determination period, so that it increases from its current level of \$248.85 to \$364.34 by 2019-20 (as detailed in Table 4).

**Table 4 Rouse Hill charges (\$ per year, \$2015-16)**

	2015-16	2016-17	2017-18	2018-19	2019-20
Rouse Hill stormwater drainage charge	139.65	139.65	139.65	139.65	139.65
Rouse Hill land charge	248.85	273.74	301.11	331.22	364.34

**Note:** The land charge applies for a five year period to properties within the Rouse Hill area that are connected to Sydney Water's water supply system on or after 1 July 2012.

The Rouse Hill land charge will not apply retrospectively but will affect existing Rouse Hill customers who currently pay the Rouse Hill land charge, as well as new Rouse Hill customers. Any Rouse Hill customers currently paying the Rouse Hill land charge will see their fees increase by 10% in 1 July 2016. New Rouse Hill customers who will start paying the land charge in July 2016 will also pay this fee.

## Trade waste charges

We have accepted Sydney Water's proposed trade waste prices, except for amending them to allow for recovery of a share of Sydney Water's corporate overheads.

This means trade waste prices will increase by 1.9% in real terms each year over the 2016 determination period (ie, a 7.8% cumulative increase over four years, excluding inflation).

The full list of trade waste prices is outlined in Appendix K of our Final Report.

## We are encouraging Sydney Water to be more efficient and responsive to its customers

Our prices for Sydney Water reflect our focus on reducing Sydney Water's overall costs by encouraging efficiency. Efficiency targets have been applied to Sydney Water's proposed:

- ▼ operating expenditure, which has been reduced by \$54 million to \$4,948 million (a 1.1% reduction), and
- ▼ capital expenditure, which has been reduced by \$300 million to \$2,473 million (a 10.8% reduction).

We are satisfied our approach will not adversely affect the ability of Sydney Water to operate, maintain, renew and develop the assets required to deliver its regulated services over the 2016 determination period. Further, we are satisfied our decisions will enable Sydney Water to earn a reasonable rate of return on its assets.