

# Sydney Water price review – non-residential customers



22 March 2016

## WHAT

IPART has published its draft decisions on prices to be charged for water, wastewater, stormwater and related services by Sydney Water. The Draft Report can be accessed [here](#).

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

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

Large non-residential customers would be able to enter into non-regulated pricing agreements with Sydney Water (details can be found in a separate factsheet).

We have also specified a new late payment fee and recommended a dishonoured or declined payment fee (details can be found in a separate factsheet).

## WHY

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

Most draft prices would either remain unchanged or decrease in 2016-17, increasing with inflation in later years.

## HOW

IPART has followed its established price review process, seeking public submissions

on an Issues Paper released in September 2015. The Issues Paper summarised Sydney Water's pricing proposal and outlined our initial position.

We reviewed Sydney Water's capital and operating expenditure proposals (the report can be found [here](#)). We then set prices to raise the revenue Sydney Water requires to recover its prudent and efficient costs.

## WHEN

The key remaining dates for this price review are:

- ▼ 11 April 2016 – Public Hearing on late payment and dishonoured or declined payment fees
- ▼ 18 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

We are seeking your views on our draft decisions by 18 April 2016. 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.

## 1 Draft changes to the structure of wastewater charges

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

### 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 system.

For the 2016 determination, we are applying 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.<sup>1</sup>

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% in its policies.

We consider it important that Sydney Water clearly communicate where the discharge factor is greater than 75% for non-residential customers with a 20mm meter (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.

We consider it appropriate that the discharge allowances for residential and non-residential customers are the same. Going forward, all wastewater service charges would include the cost of a fixed discharge allowance of 150 kL. This reflects a residential customer's average annual 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.

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<sup>1</sup> Discharge factors are determined by Sydney Water and may be based on an industry standard, site specific calculations by Sydney Water or a customer's representative or a discharge meter reading. Further information may be found at Sydney Water's *Customer Policy - Sewerage usage charging for non-residential customers* (8 March 2013) and available at Sydney Water's website.

## 2 Draft bills

Non-residential customers' bill impacts depend on their meter size and discharge factors, as well as their water and wastewater usage.

In general, non-residential customers would see decreases in their annual water and wastewater bills from 5.1% to 15.7% in 2016-17. In subsequent years, some non-residential customers would 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** which consume the same as an average residential property would face the same bill reductions as residential customers. A typical small business consuming 200 kL per year and discharging less than 150 kL per year (ie, 75% discharge factor) would see its annual bill decrease by \$98 (or 8.4%) in 2016-17 from \$1,167 to \$1,069 (with inflation). In 2019-20, the bill would be \$1,151, a decrease of \$16 (or 1.4%) over the 4-year period (with inflation).
- ▼ **Small businesses** which discharge more than 150 kL would see modest bill increases over the determination period. For example, a small business consuming 200 kL per year and discharging 164 kL per year (ie, 82% discharge factor) would see its annual bill decrease by \$60 (or 5.1%) in 2016-17 from \$1,167 to \$1,107 (with inflation). In 2019-20, the bill would be \$1,210, an increase of \$42 (or 3.6%) over the 4-year period (with inflation).
- ▼ **Common metered customers with low to medium usage** would see large reductions in their water and wastewater bills. For example, customers in commercial strata units with medium usage (ie, 180 kL per annum) would see a significant reduction in their bills of \$571 (or 29.6%) in 2016-17 from \$1,932 to \$1,361 (with inflation).
- ▼ **Large water users with large meters** would see a reduction in their bills. Customers in this category include public hospitals, private schools and medium to large commercial and industrial customers. As large users of water, these customers realise the benefits from the reduction in the water usage charge. In addition, these customers would benefit from our changes to calculating wastewater discharge. For example, commercial customers with high water usage (averaging 21,000 kL per annum) would see a reduction in their bills of \$12,183 (or 14.8%) in 2016-17 from \$82,186 to \$70,003 (with inflation).

## 3 Draft water and wastewater prices

**Water usage charges** would reduce by \$0.31 per kL to \$1.97 per kL (without 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.

**Uplift to water usage charges for desalinated water costs in times of drought.** Within water bills, all customers pay on average \$94 per year (without inflation) to cover the fixed costs of Sydney Desalination Plant (SDP) while in shutdown mode. If desalinated water is supplied to Sydney Water from SDP, the water usage charge would increase by \$0.12 per kL (without inflation) over the 2016 determination period. For a typical small business, the costs of SDP operating would add about a further \$26 to their annual bill (without inflation). Large users of water (ie, large non-residential customers) would pay proportionately more.

**Water and wastewater service charges** would decrease in 2016-17 and then increase by inflation. In 2016-17, the 20mm meter water service charge would be \$84.02, a decrease of about \$46 or 35.3% (without inflation). Similarly, the 20mm meter wastewater service charge would be \$704.93, a reduction of about \$338 or 32.4% (without inflation) for non-residential customers on a shared or with multiple 20mm meter. For customers on a standalone 20mm meter, this is an increase of about \$96 or 15.7% (without inflation), as this service charge was previously set to the residential service charge. However, the actual service charge applied would depend on the discharge factor used by Sydney Water.

**Table 1 Draft prices for major services from 1 July 2016 (\$2015-16) – without inflation**

	2015-16 <sup>a</sup>	2016-17	2017-18	2018-19	2019-20
<b>Water</b>					
Usage charge (\$/kL)	2.28	1.97	1.97	1.97	1.97
<i>Annual change</i>		-13.5%	0.0%	0.0%	0.0%
20mm non-residential service charge (\$/year)	129.83 <sup>b</sup>	84.02	84.02	84.02	84.02
<i>Annual change</i>		-35.3%	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%
20mm non-residential service charge (\$/year)	1,042.67 <sup>b</sup>	704.93	704.93	704.93	704.93
<i>Annual change</i>		-32.4%	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.

<sup>b</sup> This service charge applied to non-residential customers on a shared or with multiple 20mm meter. 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 Sydney Water's proposal would see them charged the same as other non-residential customers with 20mm meters. Actual charges may be less than \$704.93 depending on the discharge factors applied.

## 4 Draft stormwater prices

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 would continue to transition to area-based charges. As a result, draft prices for large non-residential customers would remain constant over the draft determination period.

However, prices for small, medium, low-impact and multi-premise non-residential customers would decrease in 2016-17. Stormwater service charges for small and multi-premise customers would decrease from \$31.55 to \$23.61 in 2016-17 and for medium and low-impact customers from \$86.02 to \$74.40.

<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.

**Table 2 Draft prices for major services from 1 July 2016 (\$2015-16) – without 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	23.61	23.61	23.61	23.61
<i>Annual change</i>		-25.2%	0.0%	0.0%	0.0%
Medium and low-impact non-residential (\$/year)	86.02	74.40	74.40	74.40	74.40
<i>Annual change</i>		-13.5%	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.

## 5 Charges for the Rouse Hill Area

There are currently two charges for the Rouse Hill Area: a stormwater drainage and a land charge.

We have accepted Sydney Water's proposal to maintain the **Rouse Hill stormwater drainage charge** in real terms at \$139.65 per year (without inflation) for residential and non-residential properties less than or equal to 1,000m<sup>2</sup>.<sup>3</sup> For non-residential properties greater than 1,000m<sup>2</sup>, the charge is levied as \$139.65 per year multiplied by the land area in m<sup>2</sup>/1000 (without inflation).

We have not accepted Sydney Water's proposal for the **Rouse Hill land charge** to remain at \$248.85 per year (without inflation) over the 2016 determination period.<sup>4</sup> This is because the current Rouse Hill land charge is set below cost reflective levels. 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.

Instead, we have decided to 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).

<sup>3</sup> This charge recovers the operating costs of the drainage system, including for activities such as cleaning out trash racks, bush regeneration and weed and ground management.

<sup>4</sup> This charge recovers a portion of Sydney Water's capital expenses for the same system.

As such, we have set the Rouse Hill land charge to \$432.89 per year (without inflation) over the 2016 determination period. We note that the NSW Government retains the discretion to reduce the Rouse Hill land charge from the price we set.<sup>5</sup>

## 6 Cost drivers

Our draft 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 \$95 million to \$4,908 million (or 1.9% reduction), and
- ▼ capital expenditure, which has been reduced by \$420 million to \$2,353 million (or 15.1% 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 draft decisions will enable Sydney Water to earn a reasonable rate of return on its assets.

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<sup>5</sup> On 8 August 2013, the Treasurer directed Sydney Water to reduce the charge from \$969 per annum to \$237 per annum pursuant to section 18(2) of the IPART Act following a reconsideration, and reduction, of the amount of land needed in Rouse Hill. The charge was reduced to \$237 per year to ensure the savings from the reduction in land acquisition were passed on in full to customers."