

Sydney Water price review - 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 annual bill decreases for typical households of around \$100 in 2016-17. In subsequent years, bills will increase with inflation.

We have also specified a new late payment fee and a dishonoured or declined payment fee. More details on these fees 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).

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

Sydney Water price review - residential customers



Bills for houses or apartments will fall over the 2016 determination period

Under our price determination, all Sydney Water residential customers will see their bills decrease in 2016-17. In subsequent years, bills will increase with inflation:

- ▼ A **typical household** consuming 220 kL of water per year will see its annual bill decrease by \$100 or 8.2% in 2016-17 (including inflation). This is \$29 lower than under Sydney Water's proposed bills.¹
- ▼ A **typical apartment** consuming 160 kL of water per year will see its annual bill decrease by \$83 or 7.7% in 2016-17 (including inflation). This is \$28 lower than under Sydney Water's proposed bills.

Table 1 Residential bill impacts (\$nominal) – including inflation

		2015-16 ^a	2016-17	2017-18	2018-19	2019-20	Change 2016-20	
							IPART	Sydney Water ^b
Without stormwater	160 kL/year (Apartment)	1,076	993	1,018	1,043	1,069	-7	23
	<i>Annual change</i>		-7.7%	2.5%	2.5%	2.5%	-0.6%	2.1%
	200 kL/year	1,167	1,073	1,099	1,127	1,155	-12	20
	<i>Annual change</i>		-8.1%	2.5%	2.5%	2.5%	-1.0%	1.7%
	220 kL/year (House)	1,213	1,113	1,140	1,169	1,198	-14	17
	<i>Annual change</i>		-8.2%	2.5%	2.5%	2.5%	-1.2%	1.4%
With stormwater	160 kL/year (Apartment)	1,108	1,016	1,042	1,068	1,094	-13	23
	<i>Annual change</i>		-8.2%	2.5%	2.5%	2.5%	-1.2%	2.1%
	220 kL/year (House)	1,299	1,187	1,217	1,247	1,279	-20	16
	<i>Annual change</i>		-8.6%	2.5%	2.5%	2.5%	-1.5%	1.2%

^a 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.

^b These figures were not included in Sydney Water's proposal, and have been calculated by IPART.

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%. In Sydney Water's pricing proposal the 2016-17 inflation rate was assumed to be 2.5%. 160 kL/year is average usage for a unit, 220 kL/year is average for a house and 200 kL/year is average for all residential customers. Totals may not add due to rounding.

Source: Sydney Water pricing proposal to IPART, June 2015, p 104; Sydney Water Annual Information Return, June 2015; and IPART's analysis.

Under the current concessions, **eligible pensioners'** typical annual water and wastewater bills would decrease between \$10 and \$25 over the 2016 determination period, depending on water consumption. This means that a pensioner's bill in 2019-20 would be lower than their current bill, including the effects of inflation.

¹ Excluding inflation, our typical residential annual bill in 2016-17 would be \$16 lower than under Sydney Water's proposed bills (this reflects our adjustments to Sydney Water's notional revenue requirement). Including inflation, the difference between our 2016-17 bill and Sydney Water's is greater than \$16 due to different inflation assumptions. In its pricing proposal, Sydney Water assumed an inflation rate of 2.5% for 2016-17. We have since updated inflation for 2016-17 to reflect the actual change in CPI of 1.3%.

Although we do not know what the pensioner concessions will be over the 2016 determination period, Sydney Water states it will ensure that pensioners experience the same percentage bill reduction as non-pensioners.² Therefore, we expect pensioners' bills would decrease relative to their 2015-16 bill.

Table 2 Water and wastewater bills for pensioners (\$ nominal) – including inflation

	2015-16 ^a	2016-17	2017-18	2018-19	2019-20	Change 2016-20
100 kL/year	331	299	306	314	322	-10
<i>Annual change</i>		-9.8%	2.5%	2.5%	2.5%	-2.9%
160 kL/year	468	419	429	440	451	-17
<i>Annual change</i>		-10.6%	2.5%	2.5%	2.5%	-3.7%
200 kL/year	559	498	511	524	537	-22
<i>Annual change</i>		-10.8%	2.5%	2.5%	2.5%	-4.0%
220 kL/year	604	538	552	565	580	-25
<i>Annual change</i>		-11.0%	2.5%	2.5%	2.5%	-4.1%

^a 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 1.3% in 2016-17 and 2.5% per annum over the rest of the 2016 determination period. Totals may not add due to rounding.

Water and wastewater prices will decrease

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.

Water and wastewater service charges will decrease in 2016-17 and then increase by inflation. In 2016-17, the water service charge will be \$88.80, a decrease of about \$14 or 13.4% (excluding inflation). Similarly, the wastewater service charge will be \$576.10, a reduction of about \$33 or 5.4% (excluding inflation).

Table 3 Prices for residential customers from 1 July 2016 (\$2015-16) – excluding inflation

	2015-16 ^a	2016-17	2017-18	2018-19	2019-20
Water					
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%
Residential service charge (\$/year)	102.53	88.80	88.80	88.80	88.80
<i>Annual change</i>		-13.4%	0.0%	0.0%	0.0%
Wastewater					
Residential service charge (\$/year)	609.14	576.10	576.10	576.10	576.10
<i>Annual change</i>		-5.4%	0.0%	0.0%	0.0%

^a 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.

Note: Totals may not add due to rounding.

² Sydney Water submission to IPART Draft Report, April 2016, p 46.

Changes to the calculation of 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.

We have made the following changes to the calculation of wastewater service charges:

- 1 applying a 75% discharge factor to the meter based wastewater service charges (ie, residential customers pay 75% of the base 20mm meter service charge), and
- 2 the costs associated with 150 kL of deemed wastewater usage will be explicitly added to the meter based wastewater service charges.

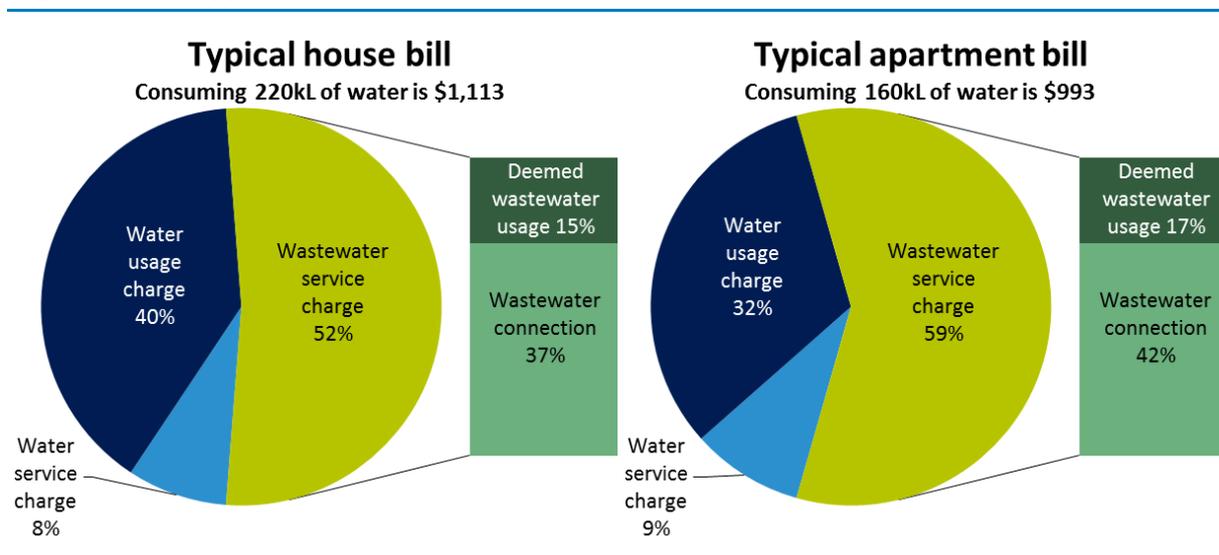
For residential customers, this means the wastewater service charge is the sum of:

- ▼ the 20mm equivalent meter charge of \$548.13 multiplied by the residential discharge factor of 75%, and
- ▼ the deemed wastewater usage charge of \$165.

This will result in a \$576.10 wastewater service charge, which is 5.4% lower than the current charge.

Figure 1 shows the components of a residential customer’s typical bill under our price determination.

Figure 1 Typical 2016-17 bill components for residential customers



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 inflation) to cover the fixed costs of SDP while it is in shutdown mode.

For a typical household consuming about 220 kL per year, the costs of SDP operating will add about a further \$26 to their annual bill (excluding inflation). Apartments consuming about 160 kL per year would pay about an extra \$19 per year.

Stormwater prices will continue to move to area-based charges

Stormwater drainage charges will not increase under our decisions. Only some customers fall within Sydney Water’s stormwater area and therefore pay stormwater charges to Sydney Water.³ Local councils, rather than Sydney Water, are the main providers of stormwater services in the Sydney area.

We have introduced a new **low impact stormwater charge** for those residential customers with houses who demonstrate that their property makes a relatively small contribution to stormwater load.

IPART has not set the terms and conditions for the application of this low impact charge. Rather, it is Sydney Water’s decision as to who the charge will apply. To allow Sydney Water sufficient time to determine the circumstances under which a residential customer should qualify for the low impact discount, we have decided that the charge will apply from 1 July 2017.

Our stormwater drainage charges are outlined in the table below.

Table 4 Stormwater prices for residential customers from 1 July 2016 (\$2015-16) – excluding inflation

	2015-16 ^a	2016-17	2017-18	2018-19	2019-20
Stormwater					
Apartments and low impact residential ^b (\$/year)	31.55	23.04	23.04	23.04	23.04
<i>Annual change</i>		-27.0%	0.0%	0.0%	0.0%
Houses (\$/year)	86.02	73.81	73.81	73.81	73.81
<i>Annual change</i>		-14.2%	0.0%	0.0%	0.0%

^a 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.

^b The low impact discount of \$23.04 will apply from 1 July 2017.

Note: Totals may not add due to rounding.

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 1,000m².

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).

³ 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 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 5).

Table 5 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.

Dual occupancies will be charged based on the number of meters

We have decided water and wastewater service charges should be levied on dual occupancies based on the number of meters connected to Sydney Water’s network. This means that dual occupancies with a single meter will no longer pay two service charges.

On balance, we have also decided to apply an approach to stormwater charges for dual occupancies that is broadly consistent with water and wastewater dual occupancy charges. That is:

- ▼ where each dual occupancy property is serviced by an **individual meter** (and are therefore identifiable), each of those properties is charged as an apartment
- ▼ where the dual occupancy properties are serviced by **one common meter** only (and are therefore not identifiable), they are together charged as one standalone house, and
- ▼ where the dual occupancy properties are serviced by **more than one common meter** (and are therefore identifiable), each of those properties is charged as an apartment.

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.