

Sydney Water price review - 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 annual bill decreases for typical households of \$103 in 2016-17. In subsequent years, bills would increase by inflation.

We have also specified a new late payment fee and recommended a dishonoured or declined payment fee. More details on these fees 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 over the draft determination period. Our draft prices ensure customers pay no more than is necessary for the services they need.

Most draft prices would either remain unchanged or decrease in 2016-17. Prices would increase with inflation in subsequent years.



HOW

IPART has followed its established price review process, seeking public submissions on an Issues Paper which we released in September 2015. The Issues Paper summarised Sydney Water's pricing

proposal and outlined IPART's initial position.

We reviewed Sydney Water's capital and operating expenditure proposals (the consultant 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. Submissions are due 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 for submissions.

Sydney Water price review - residential customers



1 Draft bills

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

- ▼ A **typical household** consuming 220 kL per year would see its annual bill decrease by \$103 or 8.5% in 2016-17 (with inflation). This is \$33 lower than under Sydney Water's proposed prices.
- ▼ A **typical apartment** consuming 160 kL per year would see its annual bill decrease by \$87 or 8.1% in 2016-17 (with inflation). This is \$32 lower than under Sydney Water's proposed prices.

Table 1 Residential bills (\$ nominal) – with inflation

	2015-16 ^a	2016-17	2017-18	2018-19	2019-20	IPART change 2015-20	Sydney Water change 2015-20
160 kL/year	1,076	989	1,013	1,039	1,065	-11	23
<i>Annual change</i>		-8.1%	2.5%	2.5%	2.5%	-1.1%	2.2%
200 kL/year	1,167	1,069	1,096	1,123	1,151	-16	19
<i>Annual change</i>		-8.4%	2.5%	2.5%	2.5%	-1.4%	1.7%
220 kL/year	1,213	1,109	1,137	1,165	1,194	-18	17
<i>Annual change</i>		-8.5%	2.5%	2.5%	2.5%	-1.5%	1.4%
160 kL/year unit with stormwater ^a	1,108	1,013	1,038	1,064	1,090	-17	23
<i>Annual change</i>		-8.6%	2.5%	2.5%	2.5%	-1.5%	2.1%
220 kL/year house with stormwater ^a	1,299	1,185	1,215	1,245	1,276	-23	16
<i>Annual change</i>		-8.7%	2.5%	2.5%	2.5%	-1.7%	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.

Note: Inflation is estimated to be 2% in 2016-17 and 2.5% per annum over the rest of the 2016 period. 160 kL/year is average usage for a unit, 220 kL/year is average for a house and 200 kL/year is average for residential.

Source: Sydney Water pricing proposal to IPART, June 2015, p 103; Sydney Water Annual Information Return, June 2015; and IPART's analysis.

- ▼ **Eligible pensioners** would see their annual water and wastewater bills decrease between \$31 (9.5%) and \$63 (10.5%) in 2016-17 (with inflation), depending on water consumption. Pensioners receive a concession of 100% of the water service charge and 83% of the wastewater service charge, and are consequently largely unaffected by our decision to restructure these charges.

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

	2015-16	2016-17	2017-18	2018-19	2019-20	Change 2015-20
100 kL/year	331	300	307	315	323	-8
<i>Annual change</i>		-9.5%	2.5%	2.5%	2.5%	-2.5%
160 kL/year	468	420	431	442	453	-15
<i>Annual change</i>		-10.2%	2.5%	2.5%	2.5%	-3.3%
200 kL/year	559	501	513	526	539	-20
<i>Annual change</i>		-10.4%	2.5%	2.5%	2.5%	-3.5%
220 kL/year	604	541	554	568	582	-22
<i>Annual change</i>		-10.5%	2.5%	2.5%	2.5%	-3.6%

Note: Inflation is estimated to be 2% in 2016-17 and 2.5% per annum over the rest of the 2016 period.

Source: IPART analysis.

2 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 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 household, the costs of SDP operating would add about a further \$26 to their annual water bill (without inflation).

Water and wastewater service charges would decrease in 2016-17 and then increase by inflation. In 2016-17, the water service charge would be \$84.02, a decrease of about \$19 or 18.1% (without inflation). Similarly, the wastewater service charge would be \$569.95, a reduction of about \$39 or 6.4% excluding inflation.

Table 3 Draft prices for residential customers from 1 July 2016 (\$2015-16) – without 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	84.02	84.02	84.02	84.02
<i>Annual change</i>		-18.1%	0.0%	0.0%	0.0%
Wastewater					
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 (\$/year)	609.14	569.95	569.95	569.95	569.95
<i>Annual change</i>		-6.4%	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.

3 Dual occupancies

Currently, dual occupancies are charged as two separate properties, where the main dwelling and the secondary dwelling each attract a water service charge and a wastewater service charge.

Under our draft decisions, dual occupancies would be charged based on the number of meters connected to Sydney Water’s network. Therefore, dual occupancies with a single meter would no longer pay two service charges. Our decision is based on recognising Sydney Water’s difficulty in identifying dual occupancies, while seeking to maintain consistency with our pricing principles.

4 Draft stormwater prices

Only some customers fall within Sydney Water’s stormwater area and therefore pay stormwater charges to Sydney Water.¹ Local councils, rather than Sydney Water, are the main providers of stormwater services in the Sydney area.

For households in Sydney Water’s stormwater area, **annual stormwater service charges** would decrease from \$86.02 in 2015-16 to \$74.40 in 2016-17 (without inflation). For residents in apartments, annual stormwater service charges would decrease from \$31.55 in 2015-16 to \$23.61 in 2016-17.

We have introduced a new category of **low impact houses** for residential stormwater customers who demonstrate that their property makes a relatively small contribution to stormwater load. These customers would be charged \$23.61 in 2016-17, the same rate as apartments, and a reduction from \$86.02 in 2015-16.

This would accommodate, for example, a situation where a customer invests in significant on-site water retention facilities. Many stakeholders support this change to stormwater prices. Sydney Water currently requires non-residential customers to apply for the low impact discount: there is a simple two page form, which is followed by Sydney Water’s assessment (at Sydney Water’s cost). We consider that this process should be extended to residential houses.

Table 4 Draft stormwater prices for residential customers from 1 July 2016 (\$2015-16) – without inflation

	2015-16 ^a	2016-17	2017-18	2018-19	2019-20
Stormwater					
Apartments and low impact residential (\$/year)	31.55	23.61	23.61	23.61	23.61
<i>Annual change</i>		-25.2%	0.0%	0.0%	0.0%
Houses (\$/year)	86.02	74.40	74.40	74.40	74.40
<i>Annual change</i>		-13.5%	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.

¹ 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.

5 Charges for the Rouse Hill Area

There are currently two charges for the Rouse Hill Area: a stormwater drainage charge 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 1,000m².²

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.³ 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).

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.⁴

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.

² 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.

³ This charge recovers a portion of Sydney Water’s capital expenses (land and civil works) for the same system.

⁴ 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.”