

NSW Water Fact Sheet 4

Review of Prices for Sydney Water Corporation's water, sewerage and stormwater services

From 1 July 2008



Welcome to NSW Water Facts

A series of Fact Sheets on issues relating to water pricing and licensing of NSW Water Businesses.

In all its work, IPART aims to be transparent and provide information to all stakeholders. As part of this information provision, we are publishing a series of fact sheets on the NSW water businesses.

The fact sheets aim to summarise and highlight major initiatives and changes impacting on the water businesses and their customers in compact, user friendly documents. More information is available in the reports or investigations published from time to time by IPART. These reports are available, in full, on IPART's website.

I hope that you find these fact sheets useful, and invite you to make suggestions on how we might improve them in the future.

James P. Cox
Chief Executive Officer and Full Time Member

Inside this Fact Sheet

Overview	2
Summary of IPART's decisions for Sydney Water	3
Appendix 1 – Sydney Water's prices from 1 July 2008	4
Appendix 2 – Impact of price changes on annual bills	6

Overview

On 16 June 2008, IPART released its final report on the prices that Sydney Water can charge for water, sewerage and stormwater services for the four years commencing 1 July 2008. This fact sheet provides a short summary of the report and associated determination. The full report and determination is available on IPART's website.

IPART's review covered Sydney Water's periodic prices for the water, sewerage and stormwater services it provides to around 4 million people in Sydney, Illawarra and the Blue Mountains. It also covered charges for recycled water services to the Rouse Hill Development Area and charges for a range of miscellaneous ancillary services that Sydney Water provides.

IPART's last determination for Sydney Water's prices was made in September 2005 for the period 1 October 2005 to 30 June 2009. While the 2005 Determination was due to expire on 30 June 2009, IPART noted that a new determination might be required before then to provide for any change in circumstances. As anticipated, circumstances did change and Sydney Water's forecast expenditure has increased significantly since the 2005 Determination. The increase related principally to the decision to proceed with the construction of the desalination plant and also to the introduction of a number of major recycled water schemes.

Consequently, the Premier wrote to IPART on 13 June 2007 requesting that it conduct a full determination considering "all aspects of Sydney Water's revenue and expenditure", taking into account:

- ▼ the effect of climatic conditions on Sydney Water's revenue position since the 2005 Determination
- ▼ the desalination project
- ▼ several recycled water schemes, such as the Western Sydney Recycled Water Initiative Replacement Flows Project (Replacement Flows Project) and the Rosehill (Camellia) Recycled Water Project
- ▼ other matters, such as the extension of the Climate Change Fund and extensions to existing rebates.

The decisions made in the determination reflect IPART's aim of ensuring that prices are cost reflective while also taking into account the potential impact of those prices on customers and Sydney Water's financial viability. IPART has determined that price increases are necessary (particularly for water services) given the significant increases in Sydney Water's forecast expenditure. In addition to the desalination plant and recycled water projects, price increases are necessary due to changing financial conditions (including an increase in interest rates) and to allow Sydney Water to renew and expand water mains, reduce leakages, invest in wastewater infrastructure, and service new urban development.

IPART also decided to restructure water prices by replacing the two-tiered inclining block tariff with a single usage charge for all units of consumption. The usage charge reflects IPART's estimate of the long run marginal cost of supplying water by the end of the determination period and will increase to \$1.93 per kL (\$2008/09) by 2011/12. IPART decided to phase out the inclining block tariff because concerns about water scarcity have receded due to recent rains and the construction of the desalination plant.

IPART has decided to maintain the existing tariff structures of prices for sewerage, stormwater and other regulated services.

Summary of IPART's decisions for Sydney Water

IPART has decided to:

- ▼ Set prices for the period from 1 July 2008 to 30 June 2012 to generate expected total revenue of \$8,323 million (in \$2008/09). This is the amount that IPART has assessed as being required for Sydney Water to provide water, sewerage and stormwater services in an efficient manner over the determination period. These prices reflect significant increases in Sydney Water's forecast expenditure which are largely driven by costs associated with the desalination plant and major recycled water projects, as well as changing financial conditions (including an increase in interest rates).
- ▼ Increase the usage price of water to all customers to reflect the marginal cost of supply. This involved phasing out the two-tiered inclining block tariff and introducing a single usage charge set at the long run marginal cost of supply (estimated as \$1.93/kL in \$2008/09) by 2011/12. The usage charge will increase from the current (2007/08) first tier price of \$1.38/kL (\$2008/09).
- ▼ Increase the fixed charge for water by \$58.65 a year (plus inflation) over the determination period. The fixed charge acts as a balancing item to allow Sydney Water to recover the remainder of its efficiently incurred costs. The increase in the fixed charge is also partly in response to the desalination plant. The plant acts as an insurance policy against future water shortages arising from droughts, because the desalination plant is likely to have surplus capacity over the medium term and could increase water supplies when dam levels are low.
- ▼ Increase the sewerage service charge for residential customers by \$75.80 (plus inflation) from \$419.19 in 2007/08 to \$494.99 in 2011/12 (\$2008/09). The usage charge (applicable to non-residential customers that discharge over 500kL per year) will increase by 3 per cent (real) so that it is \$1.37 per kL (\$2008/09) in each year of the determination period.
- ▼ Set the recycled water usage charge for the Rouse Hill Development Area so that it is 80 per cent of the potable water usage charge. The recycled water fixed charge will be lowered so that it is \$10.93 (\$2008/09) in 2008/09 and maintained in real terms over the determination period. The current Rouse Hill river management charge will be maintained in real terms over the determination period.
- ▼ Maintain current stormwater, trade waste and miscellaneous charges in real terms, so that they increase only by inflation over the determination period.

In the first year of the determination, water and sewerage bills for households with average water consumption of 200kL per year will increase by \$126 or 17 per cent. The bill will increase by \$245 (plus inflation) per year by 2012. The \$245 increase is made up of \$103 for the costs of the desalination plant, \$63 for renewal of and additions to existing infrastructure to meet service standards, \$60 for improving financial viability and \$19 for recycled water projects.

For commercial and industrial customers, the combined water and sewerage bill of a customer with a 20mm meter that consumes 300kL of water per year will increase by \$301 (or 34 per cent) plus inflation by 2011/12. The bill of a customer with an 80mm meter that consumes 10,000kL of water per year will increase by a total of \$7,975 (or 25 per cent) plus inflation.

Appendix 1 – Sydney Water’s prices from 1 July 2008

Water charges (\$real, 2008/09)

	Current 2007/08	2008/09	2009/10	2010/11	2011/12
Service charge (\$ per annum)	57.74	75.70	90.96	105.86	116.39
Tier 1 usage charge (\$ per kL)	1.38	1.61	1.80	1.90	1.93
Tier 2 usage charge (\$ per kL)	1.88	1.83	na	na	na

- ▼ The above service charges apply to residential properties. For non-residential properties with a meter size larger than 20mm, a higher charge will apply.
- ▼ The Tier 2 usage charge applies only to individually metered residential properties for consumption in excess of 1.1kL/day (approximately 400kL/year). It will be removed on 1 July 2009 and replaced by the Tier 1 usage charge.
- ▼ Charges are presented in 2008/09 dollars and will be adjusted each year for inflation.

Sewerage charges (\$real, 2008/09)

	Current 2007/08	2008/09	2009/10	2010/11	2011/12
Service charge (\$ per annum)	419.19	480.31	482.30	488.38	494.99
Usage charge: non-residential properties (\$ per kL)	1.33	1.37	1.37	1.37	1.37

- ▼ The above service charges apply to residential properties. For non-residential properties the service charge is calculated according to the meter size and discharge factor.
- ▼ The usage charge applies only to non-residential properties for discharges in excess of 1.37kL per day (approximately 500kL/year).
- ▼ Charges are presented in 2008/09 dollars and will be adjusted each year for inflation.

Stormwater drainage charges (\$real, 2008/09)

	Current 2007/08	2008/09	2009/10	2010/11	2011/12
Service charge: residential properties (\$ per annum)	45.03	45.03	45.03	45.03	45.03
Service charge: non- residential properties (\$ per annum)	117.19	117.19	117.19	117.19	117.19

- ▼ Only properties in a Sydney Water stormwater catchment area pay a stormwater charge to Sydney Water.
- ▼ Charges are presented in 2008/09 dollars and will be adjusted each year for inflation.

Rouse Hill recycled water and river management charges (\$real, 2008/09)

	Current 2007/08	2008/09	2009/10	2010/11	2011/12
Recycled water service charge (\$ per annum)	19.36	10.93	10.93	10.93	10.93
Recycled water usage charge (\$ per kL)	0.74	1.29	1.44	1.52	1.54
River management charge (\$ per annum)	117.97	117.97	117.97	117.97	117.97

- ▼ The above recycled water service charges apply to properties with a 20mm meter. For properties with a meter size larger than 20mm, a higher charge will apply.
- ▼ The above river management charges apply to residential properties. For non-residential properties with land size greater than 1000m², a higher charge will apply.
- ▼ Charges are presented in 2008/09 dollars and will be adjusted each year for inflation.

Appendix 2 – Impact of price changes on annual bills

Summary of annual bills for individually metered residential properties with water and sewerage services (\$real, 2008/09)

	Current 2007/08	2008/09	2009/10	2010/11	2011/12	Change 07/08 to 11/12
Water use (kL pa)						
100kL pa	615	717	753	784	804	190
% increase		16.7%	5.1%	4.1%	2.6%	30.9%
200kL pa	752	878	933	974	997	245
% increase		16.7%	6.3%	4.4%	2.4%	32.6%
300kL pa	890	1,039	1,113	1,164	1,190	301
% increase		16.8%	7.1%	4.6%	2.2%	33.8%
400kL pa	1,027	1,200	1,293	1,354	1,383	356
% increase		16.8%	7.8%	4.7%	2.2%	34.6%
750kL pa	1,685	1,841	1,923	2,019	2,059	374
% increase		9.2%	4.5%	5.0%	2.0%	22.2%

Note: The bill increases from 2009/10 onwards may differ due to future changes in the Sydney Catchment Authority's bulk water costs.

Number of residential customers (including flats & units) with consumption recorded for the financial year 2006/07

Water use (kL pa)	Number of residential customers	Percentage of total residential customers
<100	352,777	22.3%
100-150	348,262	22.0%
150-200	293,669	18.5%
200-250	206,325	13.0%
250-300	137,034	8.6%
300-400	141,682	8.9%
400-500	56,561	3.6%
500-1000	44,673	2.8%
over 1000	3,982	0.3%
Total residential	1,584,965	100.0%