

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARINGS INTO METROPOLITAN WATER PRICING

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Tribunal Members

Dr Tom Parry - Chairman  
Mr James Cox  
Ms Cristina Cifuentes

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Held at Meeting Room 2, Level 2  
44 Market Street, Sydney NSW 2000

On Thursday, 28 November 2002, at 10.05am

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1 DR PARRY: Good morning. For the record, it is  
2 Thursday, 28 November and we commence our public  
3 hearings into Sydney Water and Sydney Catchment  
4 Authority. I have lost track of what number price  
5 setting determination this is for the metropolitan  
6 water businesses and in this case, in addition,  
7 Sydney Catchment, but it is perhaps the third time -  
8 Richard will remember - we have been holding  
9 hearings, inquiries and a process into price setting  
10 for the metropolitan water authorities.

11  
12 We will be holding hearings the week after next  
13 in Gosford and Wyong for those councils and in  
14 Newcastle for Hunter Water Corporation. The process  
15 is familiar to all our stakeholders, I am sure. We  
16 have received submissions from all of those  
17 authorities and from the stakeholders and as usual  
18 those submissions are on the public record and are  
19 on our website.

20  
21 In addition to those submissions, through this  
22 process of hearings we'll have an opportunity to at  
23 least explore some, obviously not all, of the issues  
24 in further detail from the authorities and from key  
25 stakeholders.

26  
27 As usual we thank everybody for the effort that  
28 you have put into the process because without that  
29 effort we would not be able to do our job as well as  
30 we attempt to do it. There is a fair bit of work  
31 that goes on beyond the surface of what we see  
32 today, including some fairly detailed work by our  
33 consultants, which will be in the public arena at an  
34 appropriate time, which is testing a lot of the key  
35 drivers in terms of capital expenditure and  
36 operating expenditure of the businesses.

37  
38 The issues that are before us today are not  
39 entirely new; they're issues that have been around  
40 for a number of years. They go to questions of  
41 efficiency of the businesses in terms of operating  
42 costs and capital costs, they go to questions of  
43 pricing structure in relation to cost recovery,  
44 commercial returns and of course environmental  
45 considerations and they go to some of the other  
46 issues, including social impacts and some of the  
47 other sectoral considerations: for example,  
48 developer charges and storm water.

49  
50 We will be covering that full range of issues  
51 in today's hearing. It is a long day and I  
52 apologise in advance. I have a commitment with the  
53 only legal monopoly in Australia, the Regulators  
54 Forum, where we as a cartel get together and that  
55 commitment requires me to leave at about 3 o'clock  
56 to go to Adelaide. Jim will take over chairing the  
57 sessions at three o'clock.

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1 SYDNEY CATCHMENT AUTHORITY

2  
3 DR PARRY: We start this morning with Sydney Catchment  
4 Authority. Would you be good enough, please, to  
5 identify yourselves for the record. I think you  
6 have a presentation and I would ask you to stick to  
7 the 30 minute absolute maximum presentation time.  
8 Less would be even better so we can ask you some  
9 questions and explore at least some of the issues  
10 today.

11  
12 MR HEAD: Graeme Head, Chief Executive of the Sydney  
13 Catchment Authority.

14  
15 MR WARNER: Richard Warner, General Manager Strategy  
and  
16 Policy, Sydney Catchment Authority.

17  
18 MR HEAD: Thank you. I'll start and Richard is going to  
19 do a structured presentation, which will take a good  
20 chunk of our half hour. I do want to make some  
21 general introductory remarks though that expand on  
22 some issues in our submission. I don't want to  
23 revisit most of the issues.

24  
25 It is fairly clear to those who have read the  
26 submission that our basic position is to recommend a  
27 continuation of the current price path to June 2005  
28 and we're also supporting consideration of a step  
29 price approach after June 2005.

30  
31 Some people have raised questions with me about  
32 why our position on the latter point focuses on  
33 beyond 2005. Certainly, from my point of view, I  
34 think that there are a number of whole-of-government  
35 processes underway which are important inputs to the  
36 consideration of that issue, not least of which is  
37 the work that's being undertaken by the water chief  
38 executives task force on demand management, which is  
39 probably the most comprehensive and focused  
40 examination of demand management to have occurred  
41 within government and in particular, I think that  
42 process is going to look very closely at all of the  
43 drivers for demand, the tools for demand management  
44 and how those tools work separately and in  
45 combination.

46  
47 The work that the water CEOs are doing is due  
48 to produce some outcomes towards the end of next  
49 year and I think that that's going to be a very  
50 valuable input toward considering some of these  
51 longer term issues.

52  
53 Since the last time the Sydney Catchment  
54 Authority was sitting attending one of these  
55 hearings we've developed a new business plan, which  
56 has a very different focus for the organisation in  
57 that it I guess moves the organisation beyond its  
58 establishment phase into a clear phase of

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1 implementation. It is focused on a number of key  
2 outcomes.

3  
4 That business plan is really assisting the  
5 organisation to identify with far greater precision  
6 what its requirements will be in the medium to  
7 long-term. It does represent quite a significant  
8 shift.

9  
10 There is a strong focus in the business plan on  
11 the key result area of minimising threats to water  
12 quality. That is very significant because in the  
13 work that will be undertaken when the regional  
14 environment plan on drinking water eventually comes  
15 in, we'll focus on that key result area. The plan  
16 is likely to go out on re-exhibition very soon and  
17 of course one of the requirements that the plan will  
18 introduce for the SCA is to produce rectification  
19 action plans for each of the sub-catchments.

20  
21 Those rectification action plans will really  
22 provide a very detailed analysis of what needs to be  
23 done in order to achieve certain water quality  
24 outcomes in each sub-catchment. The priority  
25 rectification action plans will be required to be  
26 produced within two years of the REP coming in and  
27 all of the rectification action plans will need to  
28 be developed within five years.

29  
30 There will be a progressive process of  
31 identifying what water quality outcomes are being  
32 sought and what the means are of achieving those  
33 outcomes. That of course will assist the SCA or  
34 that provides the framework for us really doing very  
35 detailed analysis of what all of those things will  
36 cost and, as I say, the first of those plans will be  
37 within two years of the REP coming in, so within a  
38 little more than two years from now.

39  
40 The other point I wanted to make before Richard  
41 presents is that since putting in our submission -  
42 and I'm sure this is something that the Tribunal  
43 would have heard from other utilities - there's  
44 obviously been a very dramatic increase in the focus  
45 on security issues. The SCA is working  
46 cooperatively with other parts of government on  
47 ensuring that the security arrangements we put in  
48 place for our assets and infrastructure are  
49 appropriate and that our methods for responding to  
50 incidents are appropriate.

51  
52 Some of those requirements to undertake a new  
53 analysis, based on I guess a heightened concern in  
54 the community, are relatively recent and we would  
55 anticipate that there are likely to be some  
56 significant effects on us both in terms of operating  
57 expenditure and capital expenditure which we will  
58 need to review once we've completed all of that

1 analysis.

2  
3 With those introductory remarks I'll now hand  
4 over to Richard who has a presentation which will  
5 use up the rest of our 30 minutes but no more.

6  
7 DR PARRY: Thank you, Graeme.

8  
9 MR WARNER: It will be a challenge to get through this  
10 in 30 minutes.

11  
12 DR PARRY: You'll meet it, Richard, as you always do.

13  
14 MR WARNER: If I skim over a few of our overheads, you  
15 will I hope understand. Could I just give you a  
16 reminder of the Sydney Catchment Authority's area of  
17 operations and what we're intending to do. We have  
18 a catchment area that extends from Lithgow in the  
19 north to well down to the south of Sydney,  
20 approaching Nowra, just inside from Canberra.

21  
22 There are two areas in our catchments. There  
23 are the inner catchments which are dark shaded  
24 there. A lot of that land is in fact in very good  
25 condition and most of it, particularly in the  
26 Warragamba catchment, has actually been dedicated as  
27 national parks. The last of that land that we owned  
28 went over this year.

29  
30 The outer catchment, or the lighter shade of  
31 grey, represents the biggest challenge for the SCA.  
32 That is where we've got to exercise a lot of our  
33 functions in terms of land use planning as well as  
34 there are polluting activities that are undertaken  
35 in that area that we need to look at and control -  
36 discharges from sewage treatment plants, run-off  
37 from farms and dairies, et cetera.

38  
39 That is just a schematic on the water supply  
40 system because that may be touched upon. We control  
41 21 dams valued at \$686m; they're our total assets.  
42 Our assets comprise land, dams and major pipelines  
43 and conduits to get water into Sydney Water's water  
44 filtration plants. We've got metropolitan dams -  
45 the Avon, Cordeaux, Cataract Dams, et cetera.  
46 Warragamba Dam is our biggest storage. I might add  
47 at this point in time storage levels are running  
48 down due to the drought. We're about 67.3 per cent  
49 of capacity at this point in time.

50  
51 Very briefly, you will recall that we had a  
52 pricing determination made for us covering the  
53 period from the year 2000 to 2005. In the case of  
54 Sydney Catchment Authority this is effectively a  
55 mid-term review of that determination to ensure that  
56 things are on track, unlike the other agencies -  
57 Gosford, Wyong, Sydney Water and Hunter - who I  
58 understand are here to actually have a determination

1 made for the next two years.

2

3 Basically, at the last determination the  
4 Tribunal determined that our revenue would be  
5 derived from a fixed charge as well as variable  
6 charges in the supply of water to Sydney Water and  
7 they're our largest customer. They provide us with  
8 over 99 per cent of our revenue.

9

10 Basically, those charges are to increase by CPI  
11 over the term of the price path and you can see  
12 there the fixed charges that we're currently  
13 charging, which is about \$5m per month. There is a  
14 volumetric charge and that's about \$1.10 per  
15 megalitre at this point in time. We also sell water  
16 to Wingecarribbee Shire Council and that charge is  
17 due to ramp up and it is currently at \$81.50 a  
18 megalitre.

19

20 Raw water sales are sold at 44 cents a  
21 kilolitre; there's not a lot of that sold. They are  
22 generally to smaller customers who take water from  
23 either our storages or off our pipelines. It is a  
24 relatively insignificant component of our revenue.  
25 There is unfiltered water again taken off pipelines.

26

27 Basically, in terms of how we've gone over the  
28 last two years of the determination, one of the  
29 major capital works we had underway when the  
30 Authority was formed was the Warragamba spillway.  
31 That spillway has been effectively completed in a  
32 physical sense. The engineering works of the  
33 spillway have finished and that has come in somewhat  
34 under budget. There is still work to be undertaken  
35 and money to be spent as part of that contract but  
36 in fact the physical work is completed.

37

38 We have had over the period 100 per cent  
39 compliance with the health related water quality  
40 guideline. We have managed to meet Sydney Water's  
41 demand requirement and over that period they've  
42 taken 1,800,000 megalitres of water, although I  
43 indicated the drought is having an effect on us.  
44 Most people I hope are aware that there are  
45 currently voluntary restrictions in place in Sydney  
46 to actually curb water consumption, given the fall  
47 in storages and the extent and duration of the  
48 current drought.

49

50 We have also entered into an arrangement with  
51 the Department of Land and Water Conservation to  
52 accelerate the provision of sewerage facilities to  
53 some areas in the catchment and to that end we're  
54 providing funding of \$20m over five years to assist  
55 in accelerating that work. We see sewerage as being  
56 a major activity that needs to be undertaken if  
57 we're to improve water quality in the catchment.

58

1 As I've indicated, there has also been a  
2 transfer of special area lands. Those are lands  
3 that have traditionally surrounded water supply  
4 storages and to which access has been restricted.  
5 Those lands are in very good condition and have been  
6 transferred to the National Parks and Wildlife  
7 Service. We in fact paid them a fee to manage those  
8 lands for water quality outcomes.

9

10 I have just been reminded that that's  
11 principally the Warragamba catchment and doesn't  
12 include the metropolitan storages. Those storages  
13 are Cataract, Avon, Cordeaux, et cetera. I will  
14 just touch on the risks. I have already mentioned  
15 some of these things. Clearly, the drought is  
16 having an effect. The safe yield of our storages is  
17 currently 600,000 megalitres and they're actually  
18 running down fairly significantly at this point in  
19 time due to drought.

20

21 We are losing slightly less than 1 per cent per  
22 week. It doesn't look like there's going to be any  
23 let up in the drought. Nearest indications are not  
24 until about March of next year are we likely to  
25 experience any sort of rainfall.

26

27 Demand from Sydney Water has been - for the  
28 last two years anyway - above the safe yield and  
29 that's an issue that Sydney Water is working to  
30 reduce through its demand management program. Some  
31 people may be aware we also suffered badly during  
32 bushfires earlier this year when there was extensive  
33 burning of the catchment areas, including up near  
34 Warragamba where we lost some facilities and the  
35 township also suffered a great deal of harm.  
36 That certainly diverted our attention in the  
37 short-term there.

38

39 As part of our normal activities the Tribunal  
40 undertakes audits of our performance in relation to  
41 our operating licence. We have now gone through a  
42 number of audits. The 2002 audit, as I understand  
43 it, is nearing completion and that report should be  
44 released shortly. In relation to the 2001 audit, we  
45 had full and high compliance with the majority of  
46 clauses.

47

48 There was partial compliance with nine and  
49 there were only two cases of non-compliance and one  
50 of those related to security of supply and some  
51 issues in relation to environmental flows, both of  
52 which we understand we've now corrected or put in  
53 place actions to correct.

54

55 We also have audits of the catchment undertaken  
56 every two years and this is to look at the condition  
57 of the catchments and to some extent our progress in  
58 relation to making a difference in those catchments.

1 The catchment audits have highlighted that we've  
2 established effective relations with other agencies,  
3 councils and the communities in the catchments and I  
4 think it is important to recognise that the Sydney  
5 Catchment Authority is not there to work solely by  
6 itself; we have to work through other agencies.  
7  
8 There are a number of other agencies doing  
9 functions that already exist in the catchment and  
10 particularly in relation to local councils. It is  
11 not our role to usurp their functions but rather  
12 principally to assist them to ensure that they're  
13 able to undertake their role effectively.  
14  
15 The catchment audit recommended action to  
16 address some consultative processes. We are  
17 actually looking at that. We are working with the  
18 Department of Land and Water Conservation to look at  
19 how they can be streamlined. One of the recent  
20 things that's happened is the department has decided  
21 to put in place a catchment management board within  
22 the whole of the hydrological catchment of the  
23 Hawkesbury-Nepean. That is within our operating  
24 area and also downstream of our dams.  
25  
26 I think that will be meeting shortly. They are  
27 in the process of recruiting members to that. They  
28 will be cooperating with us in developing and  
29 undertaking actions under the blueprint process that  
30 the department has in place. The audit also  
31 reinforced the need for whole-of-government  
32 management and I suppose the board and the blueprint  
33 process reflects that and we're cooperating with  
34 that and we're also cooperating in things like water  
35 CEOs that Graham talked about.  
36  
37 We have identified gaps in information and  
38 knowledge and we're seeking to address and correct  
39 those. They also found that we responded positively  
40 to our previous audit outcomes.  
41  
42 Moving on, some of the financial parameters on  
43 which we're relating our submission and our prices -  
44 we've got water sales. As I've indicated, water  
45 sales have been somewhat higher in the past few  
46 years and were initially projected in our original  
47 submission. The water sales we have adopted for  
48 subsequent years reflects now what Sydney Water  
49 believes it should be able to achieve given its  
50 demand management program and that reflects a  
51 rundown from year to zero, 2004-2005.  
52  
53 Revenue is somewhat up because of increased  
54 water sales. If those projections are actually met  
55 or when Sydney Water meets those reduced projections  
56 then income will in fact stabilise to some extent.  
57 Operating expenditure has been a little higher than  
58 was anticipated at the time that IPART set the

1 price. That reflects to some extent the start-up  
2 phases. It also reflects the fact that we have  
3 introduced new initiatives, such as the accelerated  
4 sewerage scheme.  
5  
6 There have been higher costs incurred,  
7 including insurance and things like those. The only  
8 other thing that I would remark on is that our  
9 credit rating is still sound, notwithstanding the  
10 fact that the rate of return or return on assets is  
11 diminished somewhat.  
12  
13 In terms of how we compare in the efficiency  
14 stakes, we've actually sought to undertake some  
15 benchmarking in relation to other water supply  
16 agencies that provide similar functions. This  
17 information has been gleaned from the information  
18 collected by the Water Services Association of  
19 Australia. To some extent we've had to do some  
20 analysis and extrapolation of the data that's in  
21 there because some of these costs aren't necessarily  
22 blown out fully.  
23  
24 What this shows is that the Sydney Catchment  
25 Authority ranks fairly well in terms of operating  
26 costs per megalitre of water. That can be read as a  
27 good thing or a bad thing I suppose. It means we're  
28 relatively efficient but others could argue perhaps  
29 we're not spending enough on the activities we  
30 should be undertaking, such as enhancing water  
31 quality through the catchments, but that shows where  
32 we rank, I suppose, in relation to our peers.  
33  
34 Capital expenditure and capital expenditure for  
35 the future, as I've indicated we've spent \$100m on  
36 the Warragamba auxiliary spillway and that's the  
37 largest component of our capital program. We've got  
38 about \$21m yet to be spent. We're also going to be  
39 undertaking works on Warragamba's outlet valves.  
40 These are valves that release water from  
41 Warragamba Dam into a large pipeline that transports  
42 it to Sydney. That is going to be \$7.5m. That is  
43 actually rather critical and urgent work and that's  
44 in hand. Basically, the valves we've got have been  
45 shown to be unsafe.  
46  
47 We are doing some upgrades of electrics at  
48 Warragamba. Actually, electrics have a relatively  
49 short life. We are going to be spending \$7.9m on  
50 that. We are building a raw pumping station at  
51 Prospect. This is one of those recommendations that  
52 came out of McClellan and that will enable us to use  
53 Prospect more fully or integrate that more fully  
54 into the water supply network.  
55  
56 We have got a fishway at Tallowa. \$8.4m has  
57 been dedicated to that and that's a requirement to  
58 meet the outcomes of the Healthy Rivers Commission

1 Inquiry and certainly fishways are now important  
2 structural additions that need to be placed on dams.  
3  
4 As you're probably aware, there's work being  
5 undertaken by the Hawkesbury-Nepean Management Forum  
6 and the associated expert panel looking at  
7 environmental flow releases to be metered from the  
8 authority's storages. They are looking at all  
9 storages and potentially there's work that may  
10 require capital expenditure of up to \$100m to in  
11 fact change outlet works at all dams to enable flows  
12 of the magnitude and volumes that may be required  
13 and to change offtakes such that we can ensure that  
14 we get water of a better temperature down those  
15 rivers.

16  
17 Clearly, the outcome of that will be a matter  
18 for government decision. The forum will be making  
19 recommendations to government and government will be  
20 the party that is responsible for weighing up the  
21 costs and benefits in relation to that expenditure.  
22 It's still somewhat early to tell what we're likely  
23 to be up for in that regard, but it's potentially  
24 coming.

25  
26 With regard to future directions, Graeme has  
27 already spoken about the business plan. We have a  
28 robust business planning process in place. We've  
29 recently gone through a process to develop a  
30 business plan and that's guiding the activities of  
31 the authority.

32  
33 Graeme has also mentioned that the regional  
34 environment plan is expected to go on public  
35 exhibition before the end of the year. That will be  
36 out on public exhibition for a period of  
37 approximately 12 weeks.

38  
39 I think Graeme also mentioned some of our  
40 internal management systems. We're developing a  
41 financial information management system to help  
42 guide our activities and actions and we're also  
43 seeking to enhance project management and our  
44 capacity to deliver capital projects. In that  
45 regard, we're being assisted by the Department of  
46 Public Works and Services and also the RTA and AWT.  
47 In our submission, we're arguing that the status quo  
48 should be maintained.

49  
50 As far as we're concerned, we have a pricing  
51 path that covers a period of five years. We're  
52 managing with that pricing path, despite the fact  
53 that some changes and shocks have come through, and  
54 we also expect some more of those, and some of those  
55 relate to drought risks.

56  
57 As I've said, in the last couple of years we've  
58 actually sold more water than we anticipated. As a

1 result, revenue was up. We're now looking like  
2 we're going to a stage where we will be selling less  
3 than that. As I've said, voluntary restrictions are  
4 in place. The Premier recently forecast that unless  
5 action is taken to curb water consumption in Sydney  
6 and related regions, we could see mandatory  
7 restrictions in place to curb the decline in our  
8 storages. If that were to happen, then sales and  
9 revenue would drop off. That's a natural  
10 consequence of that.

11  
12 On the other side of the coin, we also have  
13 storage capacity down in the Shoalhaven River. One  
14 of the purposes of that is to supplement Sydney's  
15 supplies during drought. If we were to pump from  
16 that storage, we would expect costs to go up. At  
17 the present time, that storage is only about 70 per cent.  
18 If we took what we reasonably could out of that  
19 without emptying it, then that would cost \$2 million  
20 to \$3 million. If there were more inflows, then  
21 pumping costs would increase to \$10 million. There  
22 are very low inflows into that storage at the  
23 moment.

24  
25 We have been approached by Shoalhaven Council,  
26 who, because of low inflows into that storage, or  
27 low flows into the river, are unable to pump from  
28 Burra. They're now relying on their offstream  
29 storages. They have approached us to buy water in  
30 the event that their offstream storages fail. We've  
31 given them an undertaking that we're prepared to  
32 make water available to them should that need arise.

33  
34 One of the things that was mentioned in the  
35 Tribunal's discussion document was the potential for  
36 stepped prices at a wholesale level between  
37 ourselves and Sydney Water at some stage. Basically  
38 all this does is diagrammatically represent what  
39 that structure would look like. The intent of such  
40 a price like that would be to take away any  
41 financial incentive that Sydney Water may have to  
42 sell additional water and to remove that ambiguity  
43 that may exist between its objective or an objective  
44 to increase water sales, versus the demand  
45 management objective.

46  
47 Clearly, moving to such a price path has  
48 consequences. The authority doesn't resile from the  
49 need for something like this. What we need to do,  
50 though, I think, is consider that in a careful and  
51 structured way.

52  
53 As Graeme has indicated, one mechanism for  
54 doing that is via the whole of government demand  
55 management forum that is being led by the EPA as  
56 part of the water CEOs. So while we support this,  
57 we think there needs to be a little bit more time  
58 thinking about how we might make that work, what's

1 the optimum way of doing that, how we flow that  
2 through into retail prices, and those sorts of  
3 things.

4  
5 I will just put you on notice of some of the  
6 things that we might be looking at at later dates  
7 when we come back in 2005, and some of the things  
8 we're looking to work on in the intervening period,  
9 not only by ourselves but in association with the  
10 EPA and their demand management forum.

11  
12 We've reached a stage where cheap water sources  
13 have effectively been accessed, they've effectively  
14 been exploited to the extent they reasonably can.  
15 Some would argue they've been overexploited, and  
16 given the need for environmental flows from storages  
17 back into the Hawkesbury River, you could also say  
18 that's the case for the Hawkesbury-Nepean river  
19 system. Pricing systems therefore need to start  
20 recognising that water is now a scarce resource,  
21 there's competition for water, and, again, the fact  
22 that cheap water sources have been accessed.

23  
24 One of the ways of doing that is an inclining  
25 block tariff. Certainly that has been looked at as  
26 part of this whole of government approach, but, as  
27 I've said, that also needs to impact on retail  
28 prices and that means looking at pricing through the  
29 supply chain. I think we could actually use  
30 valuably the next two years between now and 2005 to  
31 advance those issues.

32  
33 Finally, to recap, the SCA believes that we  
34 should maintain the existing price structure to 2005  
35 and, as I've said, during that period explore  
36 alternative structures so that we can have a  
37 consistent, coherent, considered change to prices  
38 that can take place post 2005. Thank you.

39  
40 DR PARRY: Thanks very much, Richard. Thank you for  
41 sticking well within your time. You reminded us, of  
42 course, which is what I should have said, of the  
43 fact that this is a kicking tyres type of mid-term  
44 review for Sydney Catchment, as opposed to a new  
45 review for Sydney Water.

46  
47 I think both Graeme and Richard really  
48 identified some potential future pressures in terms  
49 of outcomes - rectification plans that may flow from  
50 the REP when it does eventually emerge and possible  
51 capex flowing from environmental flow obligations.  
52 They're in the future, and I guess it's difficult to  
53 say what the size of those potential spends might  
54 be, but I just want to be absolutely clear. I think  
55 Richard did say it, but in terms of your current  
56 operations for the remaining two years, there's  
57 nothing that you expect over the next two years,  
58 there's nothing that's currently happening with

1 respect to your operations that makes the current  
2 determination unsustainable in terms of revenues?

3  
4 MR HEAD: No, our view is that certainly it's  
5 sustainable. Any utility managing a large property  
6 portfolio has taken quite a hit in the last 12  
7 months in terms of insurance costs. That has been a  
8 significant additional cost in insurance premiums  
9 and the potential excesses for insurance are  
10 considerably higher now than they were 12 months  
11 ago.

12  
13 There have also been increases in  
14 employee-related costs, not all related to new  
15 initiatives but to do with superannuation  
16 liabilities, et cetera, which are not insignificant,  
17 but we're comfortable that we're able to manage  
18 within the current determination.

19  
20 DR PARRY: So in terms of pressures, for example, we're  
21 aware that there are some changed responsibilities  
22 with respect to you and National Parks and Wildlife  
23 in terms of some of the inner catchment work with  
24 respect to your dealing with, commenting on  
25 development applications. Again, are there  
26 pressures in terms of your current ability to deal  
27 with those activities?

28  
29 MR HEAD: SEP-58 dictates our role in development, our  
30 concurrence role. Certainly one of the things that  
31 we need to do at the moment is meet all of our  
32 obligations under that planning instrument, while at  
33 the same time anticipate the REP and do the  
34 developmental work that we need to do. We have a  
35 good structure in place internally to do that, so we  
36 know that the REP will involve certain priority  
37 activities for the SCA when it comes on line.

38  
39 We've been spending considerable effort over  
40 the last few months ensuring that we're able to  
41 manage the focus of both our existing obligations  
42 and getting ready for the REP. That includes some  
43 important piloting work on rectification action  
44 plans and the methodology for developing them.

45  
46 The board made a decision earlier this year  
47 that approved the establishment of a compliance  
48 group within the SCA. That relates to a point that  
49 Richard made. With respect to development consent,  
50 we clearly need to work with councils, as the  
51 consent authorities, to ensure that they're  
52 following up on matters that were referred to the  
53 SCA for concurrence, but, equally, we have  
54 obligations under our environment protection  
55 regulation. That's a fairly complex body of work  
56 for us because we exercise powers similar to  
57 councils in the catchment under the environment  
58 protection statute, and, of course, the EPA



1 exercises powers as well. So, in effect, we're one  
2 of 20 regulators within the catchment exercising  
3 environment protection functions.

4  
5 We recognise that making that a value-adding  
6 process rather than duplicating effort that's  
7 occurring elsewhere is fairly complex, so we've set  
8 up a small, dedicated team to work with councils and  
9 the EPA to make sure that we're focusing on those  
10 things that are a high priority for the Sydney  
11 Catchment Authority. But, again, we're managing  
12 those projects within our existing cost structures,  
13 and we're quite comfortable with that.

14  
15 On the national parks issues, the principal  
16 tool for managing those lands is the special areas  
17 plan of management. That was developed before the  
18 land transfer occurred. Our view - we've been  
19 working very successfully with National Parks on  
20 this - is that now that the Warragamba special area  
21 lands have transferred, there's a need to more  
22 precisely specify what the forward program is and to  
23 make sure we understand all of the cost implications  
24 of that on both sides. We have a very good process  
25 established with National Parks to work through  
26 those issues, but, again, I think we've anticipated  
27 in our forward plan for budgets the likely costs of  
28 most of these programs.

29  
30 DR PARRY: Within the remaining two years?

31  
32 MR HEAD: Yes.

33  
34 DR PARRY: It might be difficult, but looking beyond two  
35 years, is there a stab at what the projected revenue  
36 requirement might look like beyond 2005?

37  
38 MR HEAD: Well, you could have a stab at it, but really  
39 I think the major input to that will be what comes  
40 out of the first couple of rectification action  
41 plans. I think they will give us a really good idea  
42 of what the total cost of that program is likely to  
43 be.

44  
45 All of the rectification action plans will need  
46 to be in place by, at the latest, the middle of  
47 2008, and some of those will then be well down the  
48 path of having been implemented. So I would  
49 anticipate certainly by 2005, when we are here  
50 again, having a very, very detailed analysis of  
51 those issues.

52  
53 DR PARRY: That's good. Thank you.

54  
55 MR COX: Thank you very much for the submission and your  
56 presentation today. I think Richard highlighted in  
57 the presentation that there were a number of  
58 variations of both capital expenditure and operating

1 expenditure from that which was expected from the  
2 time of the last determination in 2000. As I  
3 understand it, capital expenditure came in less than  
4 expected and operating expenditure came in more than  
5 expected. Perhaps you could talk about the reasons  
6 for that and how concerned we should be with these  
7 variations we're experiencing.

8  
9 MR HEAD: I might talk briefly and then hand over to  
10 Richard, given that his experience with the  
11 organisation is a little longer than my own. There  
12 are a couple of points. I think it's always  
13 important to remember that when organisations are  
14 new and they take over a range of pre-existing  
15 functions from other government agencies as well as  
16 undertaking new work, there is a degree of guesswork  
17 in some of the original assumptions that are made  
18 and there need to be adjustments as the agency gets  
19 more experienced at both doing the things that it  
20 had previously done when those functions were  
21 managed in Sydney Water as well as those new  
22 programs.

23  
24 In addition to that dimension, I think there  
25 have been some quite abnormal experiences that the  
26 organisation has had to deal with. If you look, for  
27 instance, at the last financial year, the impact of  
28 the bushfires in terms of water quality and  
29 monitoring costs was considerable. There has been  
30 the diversion of staffing resources to fire  
31 management and post-fire management and the need to  
32 undertake other important works in different ways  
33 than we'd originally anticipated.

34  
35 I think also that in the current financial year  
36 one of the biggest single changes in terms of our  
37 operating expenditure is our insurance costs, so  
38 there are some of these issues, and they are  
39 certainly not issues we could have anticipated back  
40 when the original price path was determined.

41  
42 My own view is that the tribunal ought not to  
43 be concerned. The SCA has a very aggressive program  
44 in place looking at implementing new management  
45 systems, in particular a project that Richard  
46 managed, which integrates all of our key business  
47 systems, IT systems, with our financial management  
48 system. It will introduce a range of efficiencies,  
49 I guess, where there have been very onerous manual  
50 systems in place that have required a lot of time  
51 and effort to run, which will be largely automated  
52 through the introduction of this system.

53  
54 With respect to capex, I'll simply comment that  
55 I think the board has put in place an extremely good  
56 framework for analysing our short- and long-term  
57 capital needs. It has adopted this new framework in  
58 August of this year and I think it will allow us to

1 make much more reliable predictions for both the  
2 short and long term in respect of that. Richard,  
3 you may want to add something.

4  
5 MR WARNER: For a brief answer, you haven't left much to  
6 say. In terms of opex - I think we've mentioned  
7 this - there have been a couple of key movements.  
8 Insurance has gone up, and that's gone up reasonably  
9 significantly. That's added to costs. Also, we've  
10 introduced that program, the accelerated sewage  
11 program, with the Department of Land and Water  
12 Conservation. That wasn't necessarily anticipated  
13 at the time of the initial determination, but in  
14 fact that's providing one mechanism by which we can  
15 get some quick runs on the ground in the catchment.  
16 They are two principal ones that I recollect.

17  
18 There have been other sorts of staffing changes  
19 and those sorts of things but, as Graeme has  
20 indicated, as we get some of the systems in place,  
21 particularly the financial information management  
22 system - I might add, I am not the finance person;  
23 our chief finance officer is doing a sterling job -  
24 that in fact will improve efficiency in that regard.  
25 Some contracts are coming up for renewal and we've  
26 recently renegotiated a water monitoring contract.  
27 That will yield some significant savings to us.

28  
29 I note that from our latest statement of  
30 financial framework that we negotiated with you from  
31 Treasury, at the end of the price path, the  
32 difference between what we're expecting to be  
33 spending in operating expenditure and IPART's  
34 determination will be about \$3 million, so in fact  
35 we've gone up sharper, but we're virtually going to  
36 end up at a very similar end point, which is fair.

37  
38 In terms of capex, capex expenditure was lower  
39 than expected because basically it took us a while  
40 to get started. One of the things we recognised the  
41 organisation lacked was in fact capex project  
42 management skills. That affected our potential and  
43 ability to deliver on those sorts of things. We've  
44 reviewed that and we're correcting that by in fact  
45 engaging external project managers to assist us. In  
46 that regard, DPWS, RTA and AWT are assisting us.

47  
48 We have an expectation that in fact capital  
49 expenditure will increase significantly over the  
50 next two years as those people drive those projects.  
51 In fact, at this point in time, to some extent, we  
52 actually have a bit of tension in where our capital  
53 dollars for this year will be spent. So that ground  
54 swell has in fact started already.

55  
56 The other thing we have, we have a couple of  
57 investigations in place. One is a major  
58 investigation being undertaken by SMEC into what

1 needs to be done in relation to the upper canal.  
2 Expenditures potentially on that are quite  
3 significant. They range from about 40 million to  
4 400 million, so it's a fairly significant type of  
5 spread. We want to make sure we get that right  
6 before we commit to doing anything. As I said,  
7 those investigations are under way by a respectable  
8 engineering firm.

9  
10 MR COX: Thank you. This may be an issue for the  
11 future, but I think it's worth raising. It sounds  
12 as though, from presentations you've made, the  
13 catchment activities are an increasing priority for  
14 the authority. How can we as a tribunal be  
15 persuaded we're getting value for money in that  
16 area? I might add, we've done a lot of work on  
17 these issues with the Department of Land and Water  
18 Conservation in their resource management activities  
19 in western New South Wales and have always found it  
20 a relatively unsatisfactory and difficult area to  
21 deal with.

22  
23 MR HEAD: One of the challenges for the SCA, in the  
24 absence of the REP, has been how to advance some of  
25 these initiatives that commonsense dictates you need  
26 to undertake anyway in advance of the framework that  
27 allows you to do all of that management. So things  
28 like the accelerated sewage program that we've  
29 invested in, we knew that once the REP was in place  
30 and we developed rectification action plans, those  
31 things would need to be undertaken anyway.

32  
33 The fact that catchment improvement initiatives  
34 will be occurring within the framework established  
35 by the planning system and that the rectification  
36 action plans have a relationship to the blueprints  
37 that the law has been developing will probably allow  
38 us very clearly to specify what water quality  
39 outcomes we're seeking to achieve through the  
40 measures we're implementing under those RAPs and how  
41 we're going to know we're making progress against  
42 those. It's quite important from our point of view  
43 that we do that because the RAPs are not substitutes  
44 for blueprints. In a sense, they focus on a subset  
45 of issues that are dealt with in catchment  
46 blueprints, and it will be extremely important, from  
47 the SCA's point of view, that it can identify in  
48 that broader catchment management approach what it's  
49 doing and which outcomes its actions are  
50 contributing towards.

51  
52 Part of what the RAP requires is the  
53 development of strategic land and water capability  
54 assessments. Again, that will provide I think some  
55 benchmarks that will assist us to develop good  
56 performance indicators and report against them.

57  
58 MR COX: It's an issue that we want to talk about a fair

1 deal next time around.

2

3 MR HEAD: I guess so. The other point I'd make on that  
4 is the fact that we have the whole catchment  
5 audited, which in effect is a mini state of the  
6 environment report for the hydrological catchment,  
7 really does force the SCA to look very closely at  
8 what performance indicators need to be in place in  
9 order to measure the success of responses. There's  
10 a statutory audit of the land and waters in the  
11 catchment every two years. Once the rectification  
12 action plans are starting to roll out and the REP is  
13 in place, presumably that will provide a very strong  
14 focus for the catchment auditor in reporting on  
15 what's happening in the catchment and the outputs of  
16 that process will be useful to the tribunal and  
17 others.

18

19 MR COX: Thank you for that. Richard put up a very  
20 interesting table which showed the authority's  
21 financial performance, which he expected to  
22 deteriorate over the next few years. Looking at  
23 that table, it seems to me the main reason why  
24 performance is deteriorating is because you'd expect  
25 to sell less water to Sydney Water. How do you feel  
26 about that? Is there a conflict of objectives here,  
27 financial objectives with perhaps broader  
28 objectives? Is that an issue you struggle with  
29 yourselves and how do you feel about it?

30

31 MR WARNER: Not really. I have an expectation that as  
32 water sales decrease, we will in fact be able to get  
33 higher prices for that water. One of the reasons  
34 water sales will increase is because there's the  
35 recognition that water is becoming a scarce  
36 resource. I would expect that at some future time  
37 that has to be tackled, prices will have to  
38 increased, because basically the functions that the  
39 authority has to undertake will be there - and they  
40 will be there, I suggest, forever - and the funding  
41 will have to be found to ensure that those catchment  
42 management activities and water quality improvement  
43 objectives are met. I'm comfortable with that  
44 dichotomy.

45

46 MR HEAD: A clear feature of our operating environment  
47 is an expectation that demand for water will be  
48 managed and that the resource isn't unlimited.  
49 That's simply one dimension of the policy  
50 environment in which we operate. So I don't think  
51 we take a narrow perspective on this at all. I  
52 think it's been a really positive step that Sydney  
53 Water and Sydney Catchment Authority have been  
54 included in the Water Chief Executives Forum and  
55 that we're actively involved in the discussions on  
56 what tools are available to deliver demand  
57 management outcomes and in what combination they  
58 should work and what that means in terms of how

1 government agencies and utilities cooperate in the  
2 delivery of different programs. So I think there's  
3 active participation in those processes and a  
4 recognition that that feature of the operating  
5 environment will exist whether we like it or not.

6

7 MR COX: Thank you for that. Finally from me, your  
8 support on stepped pricing which you want to have,  
9 but not yet, perhaps you can talk about the  
10 advantages that you see flowing from that in terms  
11 of better demand management.

12

13 MR WARNER: I guess the principal advantage that can  
14 potentially come from that is that the financial  
15 incentive that Sydney Water potentially has to sell  
16 more water is taken away from them. Basically for  
17 every additional kilolitre of water that Sydney  
18 Water currently sells at the moment, they get an  
19 additional 70 cents of that to keep, retain.

20

21 At this point in time, they're in the position  
22 where they in fact potentially suffer from a  
23 conflict between selling more water and in fact  
24 enhancing their demand management program. That is  
25 to reduce output. In the past activities of the  
26 tribunal and hearings, that has certainly been  
27 something that has been raised as an issue. It was  
28 certainly raised at the mid-term review of both our  
29 operating licences. It was raised rather  
30 forcefully. Step pricing is one way of taking away  
31 that perverse incentive, if you like. I would  
32 think, though, that there needs to be a structure  
33 put in place of how you deal with the additional  
34 revenue that the SCA then gets.

35

36 One of the things you could put in place is you  
37 hypothecate some of that money to in fact demand  
38 management initiatives because there are some large  
39 scale demand management initiatives that may have to  
40 be undertaken and particularly in relation to reuse.  
41 If we're going to actually achieve reductions beyond  
42 those being forecast at this point in time, it would  
43 be useful to have some sort of funding source in  
44 relation to that.

45

46 At the operating licence mid-term review  
47 Bob Wilson, who is the chair of the independent  
48 expert panel on the Hawkesbury-Nepean, was in fact  
49 flagging or putting on notice some of those sorts of  
50 issues.

51

52 As I said, I think that has to be done and  
53 structured in a considered way. What you're talking  
54 about here is really some of the aspects of the  
55 pricing system, crossing over from a regulatory  
56 issue into public policy debate type issues and I  
57 think those debates are yet to be had. That means  
58 there has got to be engagement of government, et

1 cetera.

2

3 MR COX: Thank you.

4

5 MS CIFUENTES: Following up on the issue of step pricing,  
6 apart from the potential use of that additional  
7 revenue for demand management programs, some of the  
8 proposals before the Tribunal have suggested that it  
9 should be used for catchment protection functions,  
10 so any additional revenues raised through step  
11 pricing should be applied to catchment protection.

12

13 There is also a proposal that has been put  
14 forward that there should be a 5 per cent levy per  
15 litre and that that should also be used for  
16 catchment protection. Do you have any views on  
17 whether it is appropriate for core functions, such  
18 as catchment protection, to be funded from either  
19 penalty revenue or from levy revenue?

20

21 MR HEAD: I will start with that. One of the issues  
22 from my perspective in looking through some of the  
23 proposals is there's an inherent assumption that the  
24 catchment protection activities that need to be  
25 rolled out can't be funded within the existing  
26 model. I don't know that that assumption can be  
27 supported.

28

29 I do think that we actually need to understand  
30 through the process that everybody seems to support,  
31 developing action plans to remediate these  
32 catchments, what's required. It is quite clear that  
33 the SCAs responsibilities in that respect are  
34 catchment rectification action plans that relate to  
35 water quality outcomes.

36

37 They aren't I guess more generally focused,  
38 they're focused on very specific sets of outcomes  
39 and I think we do need a much more thoughtful  
40 consideration of exactly what it's going to cost to  
41 deliver those outcomes before we start making  
42 assumptions that they can't be funded through the  
43 existing model.

44

45 That leads me to the view that I wouldn't  
46 favour considering those other options until we had  
47 a much clearer sense of that.

48

49 MR WARNER: I would agree with that. I would think  
50 that core functions should be part of the core  
51 revenue; simple as that.

52

53 MS CIFUENTES: Moving away from step pricing, I  
54 personally think that the catchment authority should  
55 be congratulated on what it's achieved since you  
56 were last before the Tribunal. It is not often that  
57 an authority comes before us and has actually  
58 underspent on some of its capital items and your

1 Warragamba spillway, the \$27m of spending, from my  
2 perspective at least, is quite impressive. Was that  
3 fortuitous? Was it as a result of careful planning?  
4 Was it as a result of re-thinking your capital  
5 expenditure program? Are we likely to see that  
6 again in future or is this just a one off? "We got  
7 lucky. We lucked out".

8

9 MR WARNER: It is a very big project. A large amount of  
10 that can be put down to very good project  
11 management. We were fortunate enough to have a very  
12 good project manager in AWT who controlled that  
13 project very tightly. They were very careful in how  
14 they considered any extras. In fact, the contractor  
15 sought to have a range of additional claims  
16 considered, some of those are still in fact  
17 outstanding and being considered, but a lot of the  
18 saving goes down to very professional project  
19 management.

20

21 MS CIFUENTES: Is that something that's likely to be  
22 repeated? Have you incorporated any lessons that  
23 might have been gleaned from that process?

24

25 MR HEAD: Not necessarily specifically the Abigroup  
26 experience, but one of the big focuses in the  
27 organisation at the moment is how it manages  
28 projects. The catchment authority is a small  
29 organisation for the size of its operating budget  
30 and its capital budget and that means that everybody  
31 who works there needs to be working within a very,  
32 very rigorous project management framework.

33

34 Part of this large project that's running to  
35 reform a number of management processes at the  
36 moment is looking very closely at project  
37 management, so we hope to have as rigorous a process  
38 in place for that as possible. As Richard has just  
39 alluded to, we don't know the final extent of the  
40 savings yet because there are a number of matters  
41 outstanding, subject to negotiation between the  
42 contractors and ourselves, but the project overall  
43 will come in under budget and we would hope to have  
44 a system in place that makes that more the norm than  
45 not.

46

47 MS CIFUENTES: It is quite important considering your  
48 comments about the new business plan leading to a  
49 significant shift and the rectification action plans  
50 are also likely to lead to probably increased  
51 expenditure in much the same way that the greater  
52 knowledge of your activities has also led to an  
53 unexpected increase in opex.

54

55 One of the things that concerns me is the  
56 extent to which or the confidence with which we can  
57 approach this opex/capex issue, looking for  
58 efficiencies, identifying ways to do that. How

1 confident are you that the rectification action  
2 plans, the new business plan, the capex plans,  
3 aren't going to just lead to an ever increasing  
4 trend in expenditure?

5  
6 MR HEAD: One of the things that we're doing now in our  
7 approach at the moment is really I guess trying to  
8 pull forward those things that we can pull forward  
9 that we know would need to be done at some point  
10 anyway. If you look at the investment in the  
11 enhancement of the DLWC program with respect to  
12 sewerage, that would have been necessary three, four  
13 or five years down the track anyway.

14  
15 We are I guess recognising that we can advance  
16 that now and in a sense some of the issues that  
17 would have needed to be funded under the  
18 rectification action plans down the track have  
19 already then been completed.

20  
21 I think that we're very conscious that there  
22 are processes within the organisation that are not  
23 as efficient as they could be and that part of  
24 getting ready to fund other initiatives is making  
25 sure that we have very efficient management systems.  
26 The approach, for instance, that we're taking to the  
27 compliance issue isn't to set up an entirely  
28 alternative structure.

29  
30 It is to recognise where we sit within a very  
31 complex system of delivering environmental  
32 regulation within the catchment and making sure that  
33 everyone understands which bits of the system we're  
34 focused on, that we're not tripping over each other  
35 out there doing work and that we support local  
36 government, who are the principal regulators of  
37 unscheduled activity in the catchment, in their  
38 endeavours.

39  
40 There is I guess a strong focus in the  
41 organisation toward understanding which bits of  
42 those issues they were set up to deal with and also  
43 trying to establish clear protocols with local  
44 government or other parts of State government to  
45 make sure that nothing that we're doing is  
46 duplicated or is wasting effort.

47  
48 It is hard given that we don't have any  
49 rectification action plans in place yet, but we have  
50 started a process to pilot the development of them  
51 to ensure that in advance of them coming on line we  
52 have a reasonable understanding of what kinds of  
53 costs are likely. The summary answer to that is  
54 we're about as confident as we can be.

55  
56 MR WARNER: I would like to add to that, particularly  
57 in relation to capex and the investigation recently  
58 undertaken by Halcrow bears this out, we've put in

1 place a very robust risk and condition based  
2 assessment process for determining what capital  
3 needs to be replaced and when. As I said, that was  
4 favourably commented upon by Halcrow.

5  
6 In terms of actually delivering on capex, we  
7 don't undertake any capital work in-house, that's  
8 all contracted out and it is all tested by the  
9 market. You're going to get peaks and troughs.  
10 When conditions are good then tendering prices are  
11 naturally going to be higher. When conditions are  
12 poor then you can actually get some very good cut  
13 price contracts delivered. It is really swings and  
14 roundabouts but, as I said, all our capital works  
15 are put out to contract and that ensures that we get  
16 whatever the market price is going to be for that  
17 sort of work.

18  
19 MS CIFUENTES: I have two very tiny housekeeping  
20 matters. Superannuation seems to have come up in a  
21 number of contexts. Can you shed any light on the  
22 superannuation issue, why there has been a  
23 significant - I'm assuming - increase in  
24 superannuation liabilities? The second housekeeping  
25 matter is the increased debt that Treasury has  
26 proposed for the authority. What impact is that  
27 likely to have on your financial situation?

28  
29 MR HEAD: I might comment on the first. The SCA has a  
30 higher proportion of its workforce in defined  
31 benefits schemes. Essentially, the SCA got the same  
32 kind of slug that other agencies and organisations  
33 did because of the performance of superannuation  
34 funds. It was quite a considerable slug in the last  
35 financial year, well over \$1m.

36  
37 MR WARNER: That reflects the fact, as Graeme said --  
38

39 MS CIFUENTES: I am sorry, did you say it was well over  
40 \$1m?

41  
42 MR HEAD: The additional slug, yes.

43  
44 MS CIFUENTES: Yes.

45  
46 MR WARNER: That reflects the fact of poor returns by  
47 the funds. I know that my fund in particular had a  
48 negative return and I understand that wasn't unusual  
49 given the share price shocks that have occurred over  
50 the last little time. What was the second part of  
51 the question?

52  
53 MS CIFUENTES: The second one was about debt, the impact  
54 of financial performance on the increasing debt.

55  
56 MR WARNER: When we were established  
57 PricewaterhouseCoopers undertook a review into our  
58 financial structure and at that point in time I

1 think it was recognised that we could accommodate a  
2 gearing of about 35 per cent. We're still well  
3 short of that. Conditions really haven't changed to  
4 any great extent. In fact, we're going to be  
5 revisiting and checking some of those assumptions,  
6 but I think our capacity to take on more debt is  
7 still there.

8  
9 MS CIFUENTES: Thank you.

10  
11 DR PARRY: Thank you very much indeed. We are two  
12 minutes ahead of schedule.

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1 SYDNEY WATER CORPORATION

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8

DR PARRY: We now have Sydney Water. Thank you very  
much, gentlemen, for joining us. Could you please  
identify yourselves for the record and we'll proceed  
again? I stress, if you could stick to your  
30 minutes that will give us our 30 minutes.

9 MR KITNEY: John Kitney, General Manager Finance.

10  
11 MR QUILL: Ron Quill, General Manager Assets Solutions  
12 and as of tomorrow, Managing Director Sydney Water.

13  
14 MR FREEMAN: My name is Paul Freeman and I am General  
Manager

15 Asset Management.

16

17 DR PARRY: Thank you very much.

18

19 MR KITNEY: My presentation today will cover  
20 Sydney Water's performance in delivering services  
21 since 2000 and the challenges in providing  
22 sustainable services to Sydney over the next price  
23 path and beyond. I will then outline where Sydney  
24 Water sees opportunities for further efficiency and  
25 improvement in relation to operating efficiency,  
26 capital efficiency and management of infrastructure.

27

28 Sydney Water's price path for 2002-3 was set  
29 against the CPI price increase on average. The  
30 outcomes for the price path were to ensure that  
31 Sydney Water maintained its level of service  
32 delivered to customers. It was also to improve the  
33 quality of Sydney's waterways by improving the  
34 performance of its sewerage system.

35

36 The results of Sydney Water's performance in  
37 delivering these outcomes to the community are  
38 demonstrated in a number of ways. Sydney Water has  
39 consistently met its Operating Licence requirements  
40 with performance continuing to improve each year,  
41 even though customer service standards have also  
42 increased.

43

44 All of Sydney's beaches passed EPA's water  
45 quality criteria in 2001-02 for the first time in  
46 12 years. The significant reduction in sewerage  
47 outflows partly contributed to the landmark event of  
48 a pod of southern right whales spending some time in  
49 Sydney Harbour earlier this year.

50

51 There is the process of improving environmental  
52 amenity and reducing algal blooms in Sydney's rivers  
53 through a 62 per cent reduction in phosphorous and a  
54 23 per cent reduction in nitrogen levels. In terms  
55 of social value, Sydney Water was ranked 11 out of  
56 100 in the Sydney Morning Herald's Good Reputation  
57 Index in 2000 for corporate performance. For ethics  
58 and corporate governance Sydney Water was ranked

1 first. For environmental performance Sydney Water  
2 was ranked third.

3  
4 Sydney Water's 2001-02 residential customer  
5 survey showed that customers consider Sydney Water  
6 to be performing well but more importantly, that its  
7 performance, particularly from 1999 onwards, is  
8 getting better.

9  
10 The graph that is before you shows an  
11 improvement both in terms of satisfaction by our  
12 customers for water services as well as for waste  
13 water, our two main problems.

14  
15 The results that I have outlined to you have  
16 been delivered through a capital works program of  
17 \$1.5b for 2000-2003, which is 8 per cent above the  
18 capital projections set by IPART for the current  
19 price path. I will come back to that particular  
20 issue.

21  
22 This program has been provided in line with  
23 Sydney Water's principal objectives, which are to  
24 protect the public health, protect the environment  
25 and be a successful business. This has required  
26 Sydney Water to prioritise how it approaches its  
27 servicing requirements and in some cases to make  
28 adjustments, given the long lead times for project  
29 delivery and changing community expectations.

30  
31 One of the most important impacts of our  
32 servicing requirements through the current price  
33 path will also mean a significant increase in  
34 Sydney's population over the period. Sydney Water  
35 has also delivered a 23 per cent saving in  
36 controllable operating cost per property over the  
37 price path, a major achievement that has required  
38 organisational restructure and process reform and  
39 much more disciplined procedures for planning and  
40 delivering our services.

41  
42 I would now like to talk about future  
43 challenges and sustainability. The current price  
44 setting process is taking place within a broader  
45 debate in Australia about the limits of our water  
46 supply and the opportunities for greater innovation  
47 in water management, particularly in our cities.  
48 The current projections are that Sydney's  
49 population, Greater Sydney, will increase to 4.5m by  
50 2010, with potentially 1m living in Greater Sydney  
51 more than at present by 2020.

52  
53 The Government has decided to defer  
54 indefinitely the construction of a new dam and is  
55 currently investigating the options for storing  
56 environmental flows to Sydney's rivers to improve  
57 river health. In 2000 and 2002 Sydney Water  
58 reviewed WaterPlan 21, which is our long-term

1 strategy for the provision of sustainable water  
2 services for Sydney, the Blue Mountains and the  
3 Illawarra. The review examined the sustainability  
4 of current services and identified better ways to  
5 integrate water, sewerage and stormwater services.

6  
7 The key challenge for Sydney Water under WaterPlan 21  
8 is to provide servicing solutions and  
9 programs that sustainably manage the water resource.  
10 The graph that we have provided to you illustrates  
11 how water usage increased in line with population  
12 growth from the 1950s to the 1980s, from which time  
13 water use has remained relatively constant, if you  
14 draw a best-fit line between those particular  
15 points.

16  
17 Sydney Water's challenge is to ensure that this  
18 trend continues. Much has already been done to  
19 address this challenge under the current price path.  
20 I would now like to talk about water consumption.  
21 Sydney Water is roughly halfway to meeting its water  
22 conservation 2011 target based on the 1990-91  
23 levels. A new demand management program is in place  
24 with enhanced stakeholder reporting requirements to  
25 demonstrate savings against our targets.

26  
27 Sydney Water intends to spend up to \$80m on  
28 demand management for the period 2000-2005; in other  
29 words, over the two price paths, the current and the  
30 proposed. In terms of demand management programs,  
31 we've introduced "Every Drop Counts" and "Go Slow on  
32 the H2O." To date, under these programs 180,000 or  
33 12 per cent of customers have participated in our  
34 retrofit program and over 250,000 AAA rated  
35 showerheads have been fitted.

36  
37 This has generated water savings in the order  
38 of 10.3 megalitres per day. Leakage reduction is  
39 down from 13.5 to 10.5 and we're aiming for  
40 8 per cent by 2005, with water savings of  
41 22 megalitres a day so far. Once we achieve that  
42 8 per cent that will put us at one of the lowest  
43 leakage rates in the world.

44  
45 With respect to effluent reuse, Sydney Water  
46 anticipates that recycled water use will increase by  
47 as much as 25 megalitres per day by 2005. We have a  
48 number of schemes that are current and that will  
49 come on line very shortly. The first one that I  
50 would like to mention is Rouse Hill where there are  
51 4,500 properties connected and there's substantial  
52 growth that is being projected in that particular  
53 region over the next 20 years.

54  
55 BHP by 2004 will be using 20 megalitres per  
56 day. We have a number of golf courses with reuse  
57 water and of course we have two other schemes,  
58 Picton and Gerringong-Gerroa.

1  
2 However, these achievements will not be enough.  
3 There is a need to identify alternative water  
4 sources to secure Sydney's future water needs and a  
5 range of possible future servicing arrangements to  
6 meet customers' needs in a way that is affordable,  
7 socially acceptable and that protects the public  
8 health and the environment. These are significant  
9 challenges for Sydney Water, the government and the  
10 community.

11  
12 The issues surrounding this challenge have been  
13 raised by IPART in its mid-term review of  
14 Sydney Water and the SCA's Operating Licence and of  
15 course in the current price review. They are issues  
16 that require careful consideration and debate as  
17 information required to make clear decisions becomes  
18 available.

19  
20 As stated in our submission, the price path  
21 Sydney Water seeks is largely a continuation of the  
22 2000-2003 price determination under which prices  
23 reflect CPI. Sydney Water would also like this  
24 review to set out a process to address the issues  
25 regarding sustainability in the lead up to the 2005  
26 price review.

27  
28 Over the period 1998-1999 to 2001-2002  
29 Sydney Water has delivered a 23 per cent reduction  
30 in operating costs per property based on  
31 controllable costs. This is a significant reduction  
32 that represents the last of the easy gains to be  
33 made in achieving cost reduction in the business.  
34 These efficiencies have been achieved through a  
35 number of means. Firstly, staff reductions of 700  
36 through the voluntary exit program for 1999-2000,  
37 restructure of Sydney Water by integrating AWT back  
38 into the business and the sale of non-core  
39 businesses, process review to drive down costs,  
40 process benchmarking to review shared accounting  
41 services, field services, IT and customer services.

42  
43 A key factor with Sydney Water's remaining  
44 operating costs is their relative stickiness - a  
45 technical, accounting term - or fixed nature. Less  
46 than 5 per cent of our opex, about \$23m, is  
47 controllable in that sense in the short to medium  
48 term. The major fixed items that we have are labour  
49 at 40 per cent, outsourced functions at 22 per cent,  
50 materials at 8 per cent and a number of other  
51 expense items at 30 per cent.

52  
53 Included in the projected operating costs for  
54 the 2003-05 price path are additional costs  
55 insurance. In the last year our insurance premiums  
56 have gone up in the range of 30 to 50 per cent.  
57 With respect to superannuation, particularly in  
58 relation to the defined benefits schemes, there have

1 been substantial changes in that particular area  
2 over the last three years. We have moved from an  
3 overfunded position in relation to our stakeholding  
4 to an underfunded position.

5  
6 Just to give you some examples of what's  
7 happened, in the last financial year, 2001-2002,  
8 funds management recorded a loss on investments in  
9 the order of about 6.5 per cent and in this  
10 financial year, in the first quarter, we understand  
11 a similar amount has been lost in the market.

12  
13 Other additional costs are increased  
14 standards - Gerringong-Gerroa, Cronulla STP,  
15 supernatant filtration and of course growth. When  
16 you analyse the operating costs that we've proposed  
17 in our submission, the absorption of those costs,  
18 when you take into consideration growth in the  
19 number of properties, indicates that our submission  
20 will result in an effective cost per property for  
21 controllable items reducing by about 3 per cent over  
22 the price path.

23  
24 I would like to talk about revenue. A CPI  
25 increase will not mean a CPI revenue increase for  
26 Sydney Water and there are basically two reasons for  
27 that. The first one is that Sydney Water is  
28 absorbing the cost of further reductions in the  
29 property value based charges to non-residential  
30 customers and secondly, our forecast demand  
31 reductions are in line with our water conservation  
32 targets; so there's a reduction there.

33  
34 Risks - the current drought also highlights a  
35 significant revenue risk. If it continues and  
36 Sydney enters a period of mandatory water  
37 restrictions, then water use will reduce below  
38 revenue projections. Sydney Water will have to  
39 absorb this potential revenue reduction.

40  
41 Sydney Water accepts that its operating cost  
42 performance must continue to improve over the long  
43 term. While operating costs are largely constrained  
44 over the price path, or the proposed price path,  
45 Sydney Water can commit to continuation of process  
46 benchmarking, ongoing asset management reforms and  
47 ongoing review of core and non-core functions.  
48 The imposition of a price path less than CPI  
49 compromises the delivery of services over the price  
50 path.

51  
52 I would now like to turn to capital cost  
53 efficiency. The basis of Sydney Water's price path  
54 is the commitment of approximately \$500m per annum  
55 investment in maintaining services, improved  
56 environmental outcomes and catering for urban  
57 growth. This is a very significant commitment of  
58 funds by the community to improving its water and



1 waste water services.  
2  
3 Sydney Water accepts that it must demonstrate  
4 the improvement delivered to customers through this  
5 investment. I touched on some of these benefits  
6 earlier in listing the improvements to beaches,  
7 rivers, et cetera. Sydney Water accepts that  
8 ongoing demonstration of improvements will be  
9 required, which is a key area where it needs to work  
10 with IPART and stakeholders.

11  
12 Sydney Water has also sought to demonstrate  
13 prudent delivery of this investment through  
14 prioritisation of its capital works program and the  
15 efficiencies gained through its delivery of the  
16 capital works program.

17  
18 Key improvements to date include establishing  
19 Asset Solutions Division to better manage the capex  
20 program and encourage innovation and more flexible  
21 solutions to procurement, new procurement options  
22 allowing Sydney Water to select the most appropriate  
23 option and generate economies of scale through  
24 bundling of projects and continuing to work closely  
25 with the private sector. 95 per cent of our capex  
26 program is outsourced for design and construction.

27  
28 Our procurement is less prescriptive and more  
29 performance based, and alliance contracts have been  
30 very successful. The result has been, for example,  
31 the following savings - our sewer fix program, where  
32 there has been a 16 per cent reduction in the sewer  
33 fix program on delivery costs, plus 5 per cent  
34 reduction on construction costs in 2001-02, and the  
35 private sector has been quick as well. We estimated  
36 42 SPS upgrades and they delivered 63.

37  
38 Planning and delivery of the capital works  
39 program is driven by a range of factors, including  
40 regulatory requirements, but also future servicing  
41 needs and community expectations. This may result  
42 in short-term redundancy in the system, though in  
43 the long term this is removed. Sydney Water agrees  
44 with IPART that further work is required on how to  
45 demonstrate the level of servicing the community  
46 expects and how these requirements are justified  
47 across the customer base.

48  
49 Savings are still required. However, Sydney  
50 Water's capital works program for 2003 to 2005 is  
51 already largely committed, with approximately  
52 80 per cent committed for 2003-2004 and 40 per cent  
53 committed for 2004-2005. The key opportunities for  
54 ongoing savings in capital costs will be achieved by  
55 continuing to roll out the strategy of bundling and  
56 alliancing for capital works delivery where  
57 appropriate.

58

1 On infrastructure management, the key drivers  
2 for asset management for Sydney Water are the size  
3 of the asset base. Sydney Water currently owns and  
4 operates approximately 20,500km of water mains,  
5 263 reservoirs, 143 pumping stations, 22,500km of  
6 sewer mains, 656 sewerage pumping stations,  
7 30 sewage treatment plants and 489km of stormwater  
8 channels. This makes Sydney Water one of the  
9 largest water and wastewater service providers in  
10 the world.

11  
12 We also have an ageing infrastructure. Our  
13 asset base is highly diverse with individual  
14 components at different stages of their effective  
15 life, with a considerable or significant proportion  
16 of these assets approaching the end of their  
17 effective life.

18  
19 In response to this, Sydney Water has  
20 undertaken to develop a risk-based approach to  
21 managing the asset base. It has also certified  
22 quality management systems in place for its water  
23 and wastewater systems to ensure the effective daily  
24 management of these assets.

25  
26 Sydney Water is currently preparing asset plans  
27 and area plans that will define Sydney's servicing  
28 requirements into the future. These plans will help  
29 define where future investment is required by  
30 clearly basing investment on service requirements.  
31 They will also help to optimise the level of  
32 operating and capital expenditure required. Sydney  
33 Water believes it should develop a program with  
34 IPART regarding cost and servicing information that  
35 it requires in the lead-up to the 2005 price review.

36  
37 I would now like to summarise and reach our  
38 conclusion. In summary, Sydney Water's position is  
39 a two-year price path, with prices increased in line  
40 with CPI and our capex and opex targets as reflected  
41 in our submission. This will ensure continued  
42 service reliability in line with standards and  
43 growth, and environmental improvement remains a key  
44 driver for the price path.

45  
46 As mentioned earlier, the proposed operating  
47 budget over the two years will result in a  
48 3.5 per cent reduction in controllable costs per  
49 property over the price period. We have a  
50 commitment to review servicing cost issues with  
51 IPART in the lead-up to the 2005 review and we would  
52 like to engage in debate with IPART and stakeholders  
53 about pricing reform for full consideration at the  
54 2005 review.

55  
56 These are real issues about the cost and range  
57 of services that Sydney will require to ensure  
58 sustainable water and wastewater services by 2050.

1 Further information will be required to make  
2 informed decisions about these issues. Sydney Water  
3 believes that the 2005 price review will be an  
4 opportunity to discuss these very long-term issues  
5 with stakeholders. Thank you.

6  
7 DR PARRY: Thanks very much, John, and thanks for  
8 sticking to the time. It might seem a minor issue,  
9 but it's not, and it's an issue that Cris has  
10 already raised with the Catchment Authority. It  
11 goes to employee provisions. You've identified  
12 superannuation and the defined development  
13 contributions that you've provided for. I think  
14 that's the key. In 2002 these employee provisions  
15 went up by some 82 million, well over a 200 per cent  
16 increase.

17  
18 By way of questioning, I'd like to ask you to  
19 clarify what went into that increase in employee  
20 provisions. I don't understand what's happened, in  
21 terms of a move from an overfunded position in the  
22 defined benefits schemes - and I'm not sure whether  
23 you had payment holidays, or whatever, during the  
24 overfunding period - to a one-year, certainly a  
25 one-year, possible underfunding in terms of the  
26 potential obligations for employer contributions to  
27 the defined benefit schemes. It doesn't seem to  
28 make sense in terms of taking a three- to five-year  
29 view, whereas our understanding of the defined  
30 benefits scheme is that SSS and SASS still have  
31 reasonably significant positive returns.

32  
33 So I just don't understand what has happened to  
34 drive such a large increase in employee provisions.  
35 It's more than a minor point because that  
36 \$80 million-odd seems to account for the additional  
37 revenue in the last few years above the projected  
38 determination revenue. So it's of some interest to  
39 us.

40  
41 MR KITNEY: It is essentially accounting. In relation  
42 to the defined benefits schemes, we certainly have  
43 SASS and we have the old State Superannuation Scheme.  
44 We have a considerable number of staff within Sydney  
45 Water in both of those schemes, rather than  
46 accumulation funds.

47  
48 In 1999-2000 we moved from a slightly  
49 underfunded position to an overfunded position, and  
50 it essentially occurred because of actuarial  
51 assumptions. There was a movement from an assumed  
52 performance of 3 per cent real to 4.5 per cent.  
53 There was a change in the gross liability  
54 calculation, so it moved from underfunded to  
55 overfunded. What effectively occurred in the  
56 accounts was a flick between current or long-term  
57 liabilities provisions into current assets.

58

1 In the last two years, with poor performance by  
2 the funds managers, the stakeholding has dropped  
3 considerably, so the change has been from current  
4 assets through to provisions and liabilities, and  
5 that explains the substantial change. It has  
6 nothing to do --

7  
8 DR PARRY: I'm not an accountant, and that's not  
9 bragging, or apologising. I'm an economist and  
10 apologising. I understand when you say overfunding  
11 led to an increase in current assets, underfunding  
12 to an increase in liabilities. Where does that flow  
13 through to opex? It's a provision I just don't  
14 understand.

15  
16 MR KITNEY: The change between overfunding and  
17 underfunding, taking into consideration actual  
18 payments made by an entity, such as Sydney Water, to  
19 the schemes, ends up flowing through as an expense.

20  
21 DR PARRY: So was there an actual increase in payments  
22 when you flicked to the underfunding? I thought it  
23 was just a provision.

24  
25 MR KITNEY: It is essentially an accounting expense  
26 which will flow through to cash, depending on the  
27 manner in which we actually catch up on the  
28 stakeholding; in other words, ensuring over a period  
29 of time that the stakeholding equates to the  
30 liability. We don't have to make the change  
31 immediately. If we have a substantial loss in this  
32 particular area, we don't have to draw a cheque  
33 immediately and pay it into state super. The  
34 negotiations that occur between the two of us are to  
35 actually move to a fully funded position over a  
36 reasonable period of time.

37  
38 DR PARRY: Because in three years time you may well  
39 flick back to overfunding and an increase in current  
40 assets?

41  
42 MR KITNEY: We are going through a detailed triennial  
43 actuarial assessment at the end of this fiscal year.

44  
45 DR PARRY: What do we do about that \$80-odd million in  
46 terms of moving forward and to the next part of in  
47 this case a two-year price path? It's a very large  
48 amount. Sydney Catchment's \$1 million, with all due  
49 respect, doesn't worry us too much, but \$80-odd  
50 million, I assume the bulk of that employee  
51 provisions is what we are talking about here.

52  
53 MR KITNEY: That is correct.

54  
55 DR PARRY: Rather than take up all our time now, I think  
56 we have to put you on notice that that's a serious  
57 issue that's of concern. We need to explore it and  
58 work that through. It's not as easy as it might

1 appear.

2

3 Related to that, I hear what you're saying  
4 about controllable costs and I certainly understand  
5 some of the constraints on opex, but it's a  
6 pessimistic view that it's really only growth that  
7 will give you reduction and control of operating  
8 costs of property more broadly. It's a picture that  
9 suggests that the business has essentially or  
10 effectively exhausted all of its ability to drive  
11 operating costs further.

12

13 MR KITNEY: We do incur additional costs associated with  
14 growth through opex, and what we're saying is that  
15 those particular increases in costs, together with  
16 the other issues that I've listed earlier in the  
17 presentation, will be absorbed. So it is a fair  
18 thing statistically to present our case in the  
19 manner in which I have today.

20

21 DR PARRY: Is there still some scope for driving  
22 operating costs more generally or have we really  
23 come to the end of that phase of efficiency  
24 improvements?

25

26 MR KITNEY: In all of the changes that have occurred -  
27 and it's really been over the last 10 years - there  
28 have been substantial changes within Sydney Water  
29 and a substantial absorption of significant cost  
30 structures by the corporation within an environment  
31 of CPI, on average, over that 10-year period. The  
32 big numbers that you can look at are the water  
33 filtration costs, for instance, which is a  
34 significant amount that has been absorbed by the  
35 corporation.

36

37 We have reduced staffing over the 10-year  
38 period very substantially. I mentioned that over  
39 the last four years it's been in the order of 700,  
40 and our view is that right now in the very short  
41 period, which we're talking about two years, most of  
42 our costs are pretty sticky. To actually drive any  
43 further will not be easy. We've reached that  
44 particular point.

45

46 DR PARRY: It goes to opex and capex in particular, but  
47 it appears - it appears - from what our consultants  
48 have explored and from what we understand that in  
49 some cases you're operating some of the standards  
50 for those operating outflows which are in excess of  
51 what EPA currently requires of you. I suppose the  
52 first thing is to confirm that that's the case.  
53 That's what has been suggested to us. If it is the  
54 case, why are you leaping ahead of EPA-set  
55 standards? It's a question we'll have for the EPA  
56 as well if it's in fact the case.

57

58 MR FREEMAN: I think particularly Halcrow has referred

1 to a number of inland sewage treatment plants.

2 There are a couple of things there. When we  
3 actually do upgrades to plants, we have to build  
4 in sufficient capacity that allows for a reasonable  
5 period between upgrades, and there is growth  
6 accommodated in that additional capacity that is  
7 actually put in at that time.

8

9 Now, often we will have some, if you like,  
10 flexibility in the standards that are being achieved  
11 due to a lower load on that particular facility  
12 which will gradually come back towards the agreed  
13 licence conditions we have with the EPA as growth  
14 comes on.

15

16 DR PARRY: That's the case, is it, for these  
17 observations that have been passed on to us?

18

19 MR FREEMAN: Yes.

20

21 DR PARRY: It's a lower load at this point of time?

22

23 MR FREEMAN: It's a lower load in a number of those  
24 circumstances.

25

26 DR PARRY: I understand. This may be an issue played  
27 out more fully through the Auditor-General's  
28 process, but I can't resist, and it goes to the  
29 billing system issue. I suppose, from our point of  
30 view, we'll obviously allow this to be played out  
31 through the Auditor-General's inquiries into the  
32 billing system exercise, to the extent funding for  
33 that has been built into the figures that we have,  
34 and it's the fundamental question of to what extent  
35 customers should be paying for a system that appears  
36 to be not delivering what it's supposed to be  
37 delivering, underlining "appears to be", because I  
38 don't know the full facts.

39

40 MR KITNEY: In past expenditure, there's approximately  
41 \$60 million in costs in relation to that particular  
42 project. We obviously went into that particular  
43 project with high expectations in relation to the  
44 outcomes and the efficiencies that we could achieve.  
45 We are in a position at the moment where we are in  
46 dispute with our contractor, and there will be other  
47 consequences in relation to that. We're going to  
48 have to let all of those processes unfold over the  
49 next year or so.

50

51 DR PARRY: Given that there are obviously things  
52 happening which may not be appropriate to talk about  
53 if there are some legal disputes, but it's something  
54 that we're obviously aware of, there is the  
55 philosophical issue that in a competitive market  
56 owners and shareholders tend to bear the costs, or  
57 insurers, or through the course other parties, so  
58 it's something we'll watch closely and see how it

1 works its way through the system in terms of  
2 customers' liabilities. Cris?  
3  
4 MS CIFUENTES: You've commented that to a very large  
5 extent opex overruns beyond your control. Arguably,  
6 on the capex side, the corporation has a great deal  
7 more control in terms of how it prioritises its  
8 capital expenditure programs, the timing, the nature  
9 of the programs, et cetera. Could you perhaps  
10 provide a little bit more detail on the main drivers  
11 of your capex program? You mentioned a few - the  
12 regulatory requirements, community expectations,  
13 service standards. How do you prioritise projects  
14 within that? How fixed is that priority system?  
15 How does it change? What certainty can the tribunal  
16 have that the projects that you have planned, say,  
17 over the next two, three years will in fact be the  
18 projects that are undertaken? To the extent that  
19 changes in that capex program and that priority  
20 system impact on prices, particularly future prices,  
21 should there be more regulatory oversight of that  
22 process?

23  
24 MR FREEMAN: Yes, it would be true to say that Sydney  
25 Water during the current pricing submission has been  
26 working on developing a more rigorous prioritisation  
27 process. We've been doing that to get a closer  
28 alignment with the clear business objectives that  
29 are articulated in the corporation's business plan  
30 and also trying to work with the EPA to ensure that  
31 we have the right balance of priorities for the  
32 regulatory improvements that the EPA would like to  
33 see implemented across Sydney Water's area of  
34 operations, but also to ensure that we balance that  
35 against our needs to meet our other requirements  
36 with respect to ensuring safe, clean, healthy  
37 drinking water and also investments in renewals and  
38 servicing of growth, as you've rightly pointed out.

39  
40 That prioritisation process has been applied to  
41 the current suite of capital works that is before  
42 the tribunal in the pricing determination. We're  
43 continuing to look to improve that process, and  
44 Sydney Water would welcome working with the tribunal  
45 on an ongoing basis up to the 2005 determination, so  
46 that any variations that might occur or arise  
47 because of emerging needs, or emerging demands,  
48 could be fully disclosed and fully discussed with  
49 the tribunal to their relative importance to give  
50 the tribunal some confidence in the transparency of  
51 that prioritisation process and the appropriate  
52 involvement of stakeholders.

53  
54 MR QUILL: Can I also add, in terms of confidence, that  
55 the capital works program as it has been put forward  
56 to the tribunal, as John said earlier, 80 per cent  
57 of that program is locked in for next year  
58 contractually. So I think therefore there is a high

1 degree of confidence that what we've said will be  
2 delivered will be delivered. Because of the changes  
3 that we've made to our procurement strategy, one of  
4 the reasons that my position was actually created  
5 was to drive out efficiencies from the capital works  
6 program and to give greater reliability to the  
7 delivery of the program and deliver on our promises  
8 to the community and the government. That's the  
9 path that we've taken, and we're starting to see the  
10 success of that.

11  
12 But it's not just simply cost that we're  
13 interested in. There are other factors, like  
14 particularly safety, that Sydney Water has a  
15 non-negotiable policy on. Environmental controls on  
16 projects is also very important to us, community  
17 satisfaction, and also the quality of the end  
18 product. We're looking to achieve a situation where  
19 the assets that are delivered are not gold plated  
20 and they are fit for the purpose and, over the long  
21 term, are economically sustainable.

22  
23 MS CIFUENTES: Certainly the tribunal would welcome that  
24 cooperation and increase in the transparency of that  
25 process. You mentioned just briefly expenditure on  
26 renewals. That is one of the areas that Halcrow  
27 have suggested perhaps there is a degree of  
28 underspending and associated concern with that. Do  
29 you have a view on whether the current level of  
30 spending on renewals is appropriate or should be  
31 higher in terms of the sustainability of the system  
32 in the longer term?

33  
34 MR FREEMAN: I think we'd concur with Halcrow's findings  
35 that Sydney Water needs to over a period increase  
36 its level of renewals expenditure. But one thing  
37 I'd like to be clear on with the tribunal is that  
38 that needs to be based on a sound relationship  
39 between risk and service outcomes for customers so  
40 that we don't overinvest in renewals.

41  
42 We have a comprehensive asset management  
43 planning process, which John mentioned, which is  
44 starting to try to drive that closer relationship,  
45 so that the levels of investment moving forward can  
46 also be substantiated from a renewals point of view  
47 to the tribunal in future price determinations so  
48 that the community can have a greater degree of  
49 confidence that we're not overinvesting in renewals  
50 and not gold plating the assets, so to speak.

51  
52 MS CIFUENTES: Thank you. In several of the proposals  
53 that are before us, obviously demand management is a  
54 big issue, and one of the initiatives that's been  
55 put forward is to review the pricing structure,  
56 financially to decrease the fixed component,  
57 increase the variable component. In my mind, the  
58 success of that depends on the consumer, the

1 customer, being cognisant of trends in their fixed  
2 expenditure or variable. Do you have any feedback  
3 whatsoever on whether the customers out there are  
4 actually aware of what's happening in terms of fixed  
5 variable? Do they ever focus on this? Does it come  
6 up in customer satisfaction surveys? Do people  
7 complain about the level of fixed charge being too  
8 high, too low? It seems to me it's very difficult  
9 for us to progress this issue without some  
10 indication that in fact that split has an impact on  
11 consumption.

12  
13 MR KITNEY: There's some anecdotal evidence that user  
14 pays has actually impacted on demand by consumers.  
15 I refer to the earlier graph that I demonstrated  
16 earlier this morning, which showed that for the 30  
17 to 40 years between 1950 and 1980 or 1990,  
18 consumption increased at around about the same rate  
19 as population.

20  
21 In the early '90s there was a change in the  
22 fundamental structure of pricing which introduced a  
23 user pays component for water. I guess the  
24 anecdotal evidence that I put to you was that there  
25 must have been a change at that particular time.  
26 People must have been aware of that situation and it  
27 was one of the issues that I imagine has led to  
28 effectively a straight line consumption over the  
29 last 10 years, together with our demand management  
30 advertising programs as well as other initiatives  
31 that have actually occurred.

32  
33 MS CIFUENTES: Could you argue that just as Sydney Water  
34 feels that they have achieved as much as they  
35 possibly can on opex efficiencies, consumers have  
36 also reduced that invariable demand of water as much  
37 as possible, that the discretionary element is  
38 actually quite small, and how you measure the  
39 discretionary element is anyone's guess. It's in  
40 fact far too low.

41  
42 MR KITNEY: One of the things that we would like to  
43 explore with IPART and other stakeholders over the  
44 next two years is looking at price structures with  
45 the view to undertaking some reasonable customer  
46 research to see whether a change in structure may  
47 drive behaviour in this particular area. I don't  
48 have any research right at this moment. All I can  
49 provide to you is the anecdotal evidence that I've  
50 discussed, but we'd certainly like to look at it as  
51 an issue over the next two years in a rigorous way.

52  
53 MS CIFUENTES: Thank you.

54  
55 MR COX: Thank you very much for your submission and the  
56 presentation. If I heard John correctly, I think  
57 you said something like if the tribunal gave an  
58 increase of less than CPI, this would threaten the

1 effective delivery of services. Why do you think  
2 that and what will be the consequences of a less  
3 than CPI increase, were the tribunal minded to do  
4 that?

5  
6 MR KITNEY: I'm very concerned about financial  
7 sustainability. When I look at the financial  
8 indicators of the organisation, we have an interest  
9 cover in the early 2s, we have a slightly increasing  
10 gearing ratio that has occurred, and will occur,  
11 over this particular price path because of our  
12 policy decision to only ask for CPI. I'm just  
13 basically concerned about those indicators and the  
14 possible impact that that may have in future times  
15 for the corporation.

16  
17 We are committed 80 per cent for our capital  
18 program for next year and 40 per cent for the  
19 following year. We're not going to be able to back  
20 out of those particular commitments, and we also  
21 have other ongoing priorities in that particular  
22 area. All I'm flagging to you is that if the  
23 tribunal decides on less than CPI, that will be an  
24 added pressure on the organisation that we will have  
25 to deal with.

26  
27 MR COX: Thank you for that. One of your less  
28 controllable costs is the amount that you pay to the  
29 Sydney Catchment Authority for bulk water. They're  
30 proposing the existing determination remain  
31 unchanged for the next two years. Are there any  
32 views you want to express on that proposition?

33  
34 MR KITNEY: I think we would agree on that, that it not  
35 change over the next two years.

36  
37 MR COX: You're not seeking a reduction because of your  
38 financial status?

39  
40 MR KITNEY: No, not at this particular point. I  
41 mentioned to you that we have a risk issue in  
42 relation to moving towards mandatory restrictions on  
43 water that will affect our finances and, as general  
44 manager of finance, I'm going to have to find the  
45 money somehow. ^ TURN 5

46  
47 MR COX: Thank you for that. It is probably fair to say  
48 that both your capital and operating expenditure  
49 would be higher than the last determination and  
50 we've discussed the reasons for that. What does  
51 this say about the budgetary process? Should the  
52 Tribunal be concerned about this particular outcome?

53  
54 MR KITNEY: I don't actually agree with your hypothesis  
55 and I will explain why. In terms of opex, in the  
56 last three years all divisions within Sydney Water  
57 overall have met their budgets in terms of those  
58 things which general managers can manage.



1 to do, which is in relation to leakage control,  
2 we've reduced from 13.5 per cent to 10.5 per cent  
3 and our objective is to get to world's best practice  
4 at around 7 or 8 per cent.

5  
6 In terms of the educative process, refits and  
7 so on, there's been a substantial amount of money  
8 spent over the last three years and going forward.  
9 We have gone a long way. If you look at the  
10 evidence with the straight line there in terms of  
11 total gigalitres that are actually consumed from the  
12 catchment and previously Sydney Water, at least  
13 we've been able to straight-line that particular  
14 consumption irrespective of the fact that Sydney  
15 over the last 20 years has increased in population  
16 by 700,000. It is still quite a good effort. There  
17 is more to do and we intend to do that.

18  
19 We would also like to debate with yourselves  
20 and other stakeholders in using price as another  
21 means for the 2005 determination, but we recognise  
22 that we've got a long way to go in terms of  
23 consultation analysis. We would like to do that  
24 with you.

25  
26 MR COX: On a small issue, you say that the savings in  
27 the retrofit program are 10.3 megalitres a day. I  
28 am interested - not necessarily today - to know how  
29 in fact you actually measured that.

30  
31 MR KITNEY: I can find that out offline.

32  
33 MR COX: Thank you. Lastly, there is the issue of step  
34 pricing which has been raised by the Sydney  
35 Catchment Authority. Do you wish to make any  
36 further comments?

37  
38 MR KITNEY: We have provided the Tribunal with a  
39 considered submission. We have a similar attitude  
40 to SCA but not quite the same. We agree that we do  
41 not want to implement step pricing for bulk water  
42 purchases at this particular time. We would like  
43 that particular issue to be discussed and argued  
44 over the next two years, in conjunction with all of  
45 the other issues that are our challenge for the next  
46 two years.

47  
48 MR COX: Thank you.

49  
50 MS CIFUENTES: Could I just have confirmation of a  
51 statement you made earlier? You managed to get  
52 leakage down from 13.5 per cent to around about 10,  
53 10.5 per cent, and your target is 7 to 8 per cent.

54 Am I correct that you said it was by 2005?  
55  
56 MR FREEMAN: The active leakage management program sets  
57 the achievement of that target by 2005 within the  
58 current funding of the demand management program.

1 It had been pointed out by Halcrows that there still  
2 may be some opportunities to take that further,  
3 based on the way you account for the economic effect  
4 of leakage. Certainly, we take that on board and  
5 we'll be having a close look at that as to whether  
6 there's a possibility to set a more challenging  
7 target in that particular area.

8  
9 MS CIFUENTES: Thank you. Just one final question and  
10 I'm happy with a short answer - again, a proposal  
11 has been put to us that Sydney Water should be  
12 rewarded by way of higher prices for good  
13 performance on environmental standards and  
14 conversely should be penalised by way of lower  
15 prices for underperformance of environmental and  
16 other standards.

17  
18 What is your view on the desirability of such a  
19 proposal, the sustainability of it, in terms of your  
20 financial position, demand management? Do you have  
21 a quick view?

22  
23 MR KITNEY: I think I'd actually like to defer that one  
24 to the debate that we must have with IPART and other  
25 stakeholders over the next two years.

26  
27 MS CIFUENTES: That is a short answer, a bit shorter  
28 than what I was looking for, but thank you.

29  
30 DR PARRY: It is for 2005?

31  
32 MR KITNEY: Yes, it is, because there are a whole range  
33 of factors that we need to take into consideration.  
34 Rewarding and penalising is not a good management  
35 approach in that sense.

36  
37 DR PARRY: Thank you very much for that. Clearly, in  
38 this forum we've only been able to talk to a few of  
39 the major issues. There are many others that we are  
40 exploring. Some of the ones we've raised today  
41 clearly we'll need to do more work on. We'll resume  
42 at 1 o'clock.

43  
44 (Luncheon adjournment)

2

3 UPON RESUMPTION:

4

5 DR PARRY: We resume with the Environment Protection  
6 Authority. If you would please identify yourself  
7 for the record and then I think we share 15 minutes  
8 of question time.

9

10 MR SMITH: Thank you. My name is Simon Smith, I am from  
11 the New South Wales EPA. My position is the Acting  
12 Assistant Director, Operations.

13

14 We have put a submission forward on this  
15 process and I don't intend to go over all of that.  
16 I think the information I have will be useful to the  
17 tribunal to paint a picture about a bit of the  
18 background of the policy and the practical landscape  
19 in which this process is happening because there is  
20 an awful lot happening.

21

22 There is quite a lot of momentum and need for  
23 change in how we supply water services in the Sydney  
24 basin and that is also connected to a lot of other  
25 environmental issues that are significant. I  
26 endorse what Sydney Water and the SCA said in terms  
27 of highlighting the significance of the 2005 review,  
28 about it being a very large opportunity for some  
29 significant change. That is overdue.

30

31 I guess we have heard already the clear facts  
32 about the difference between the current estimate of  
33 secure yield of 600 gegalitres per annum, the  
34 current level of consumption being 625; and we have  
35 also heard about the rate of population growth  
36 anticipated in Sydney and the consequent pressure  
37 that puts on the water supply. We have heard about  
38 the very significant program the Government has put  
39 in place with the Hawkesbury-Nepean Forum and its  
40 expert panel to provide advice on what level of  
41 environmental flow is required to in part restore  
42 the flow to the Hawksbury-Nepean River system.

43

44 The recommendations from that process are  
45 intended to go to government in October 2003 and I  
46 can't imagine there being a recommendation for  
47 anything less than quite a significant amount of  
48 water being required which will reduce, if  
49 implemented, the secure yield further from the  
50 system, so probably the numbers as we see them stack  
51 up, if Sydney Water is successful at meeting its  
52 targets, it may well come to close to living within  
53 the 600. If there is to be a sufficient allocation  
54 for environmental flow, it will not be sufficient.

55

56 I think the key thing to recognise is that  
57 addressing these issues is not simply a matter of  
58 changing the way Sydney Water or SCA operates, or

1 even just changing the pricing system they have.

2 There is a much broader range of things that needs

3 to change that are beyond that process. I will just

4 highlight a few of those and then talk about this

5 process and about what can be expected to come from

6 that. What needs to change is the way we view the

7 form of urban development, especially new areas, how

8 does that happen in ways that are water efficient,

9 not just in the household but in the way we make use

10 of stormwater and use of sewerage.

11

12 This involves issues such as product standards

13 for new water consuming appliances. At the moment

14 there are not mandatory water efficient standards in

15 place in Australia but that is an issue that will be

16 taken up by government because a lot of times it is

17 the decisions that are made at the time a building

18 is constructed or when appliances are purchased that

19 really determines what will happen with water

20 consumption down the track.

21

22 We know that there is a wide range of

23 performance. There are many inefficient appliances

24 and efficient alternatives that are no more

25 expensive, they provide the same services, and there

26 are Australian standard. But there is no mechanism

27 to bring them into force. That is an issue that

28 will need to be addressed.

29

30 If there is to be expanded reuse there is a

31 whole range of issues that will have to be addressed

32 in terms of finding a sustainable way to displace

33 current water usage, for example, irrigation of

34 agriculture in Western Sydney. In turn there are

35 issues that are connected with that such as the

36 changing landscape means that many current areas

37 that is farm land will no longer be farm land

38 because it will be developed. You can't have a

39 long-standing program for reuse if they are not

40 going to be there in the future.

41

42 There is the whole issue of management of urban

43 stormwater where there is a large process - the

44 government has put millions of dollars into that

45 over the last four years and has made a commitment

46 to move to a continued commitment of resources to

47 that process, funded in a sustainable way over time.

48

49 Storm water is clearly a resource but also its

50 management can create flooding issues and it can

51 affect the water quality of urban waterways. It is

52 definitely going to be part of the reuse cycle of

53 the future. The Government has announced already

54 significant incentives for people to install

55 rainwater tanks to use that water to displace

56 potable water for use in toilets and gardens. There

57 is a whole lot of work to establish the

58 institutional framework and pricing for all of that.



1  
2 What has happened is that the committee of the  
3 CEOs of the water agencies of New South Wales has  
4 set up a working group to look at demand management  
5 considered in the broad, not just that relating to  
6 matters within the control of Sydney Water but  
7 looking at all the demand management issues, some of  
8 the ones I have discussed and others, to provide  
9 advice to government on a whole policy framework to  
10 provide guidance to ensure that as a combination of  
11 effort the agencies of New South Wales will achieve  
12 a system where there is an efficient effort in water  
13 demand management and more reuse water cycles over  
14 time.

15  
16 We could as a once off look and say, "what do  
17 we need to do", but that would not be useful. We  
18 thought some of the things we thought were great  
19 ideas were more expensive than we thought. Other  
20 possibilities my come up when new technologies might  
21 make alternative options more attractive.

22  
23 The purpose of the group is to come back to the  
24 water CEOs towards the end of next year with a  
25 report on the whole framework. Today we are here to  
26 talk about pricing so I guess we do see that three  
27 aspects of pricing will be an important part of that  
28 overall policy framework that needs to be looked at  
29 in the future.

30  
31 What I think we need to do is all agree on a  
32 really solid analysis and research task so that we  
33 are all well placed to be making decisions based on  
34 facts for the 2005 determination. There was  
35 discussion earlier about is water consumption an  
36 elastic price or not. Viewing our consumption of  
37 water as a whole, we are not exceptionally efficient  
38 in the way that we use it. If we examine that  
39 question very narrowly in terms of, say, "here is my  
40 house, it is fitted out as it is, how much can I do  
41 to reduce water", in some cases it will not be a  
42 lot.

43  
44 In terms of our whole society we are not  
45 capturing the amount of water that falls on our  
46 roofs so we do not necessarily make good use of  
47 that. We do not structure our landscaping in a way  
48 that is water efficient adapted to our climate. We  
49 don't capture stormwater flows and use that. So  
50 there are large areas for efficiency gain that do  
51 not necessarily make sense within the narrow  
52 confines of the pricing determination related to  
53 reticulated supply.

54  
55 The three issues that I think we will need to  
56 look at between now and 2005 are, firstly, the price  
57 which Sydney Water pays to SCA. Those issues have  
58 been raised. Secondly, the prices that Sydney

1 Water's customers, potable customers, pay; and  
2 issues about the significance of the fixed versus  
3 variable component of price.

4  
5 In the past there has been a lot of complex  
6 economic theory about appropriate pricing for  
7 utilities. I would argue that it is time that  
8 pricing comes to be recognised as one tool in a  
9 policy program that is intended to achieve policy  
10 outcomes. Obviously a prerequisite to any pricing  
11 system is that the operator recovers sufficient  
12 income to provide for the costs of the service and  
13 also a dividend, but to do that means only raising a  
14 certain sum from year to year and relying on  
15 systems, whatever they may be, whether it is the  
16 tribunal or something else, to ensure that the  
17 services that are provided are provided efficiently.

18  
19 However, provided a sufficient sum is raised to  
20 meet those objectives, our view is that pricing is a  
21 very potent lever to be used to achieve other  
22 policies which are becoming increasingly significant  
23 given what we have in Sydney. We know that the  
24 average Sydney consumption is about 250 kilolitres  
25 per annum and we know that 10 per cent of the  
26 population uses more than 500 kilolitres.

27  
28 We know that water is essential for the  
29 maintenance of life. That does not mean that all  
30 water consumption is necessary. We have to make  
31 sure that low income people have good access to  
32 affordable and safe water supply. No one disagrees  
33 with that. There are clearly possibilities for  
34 reducing consumption using price within an overall  
35 framework.

36  
37 Finally, the third point we think is very  
38 important, and it reflects that suggestion about  
39 pricing being an element, a part of policy, is the  
40 differential prices between recycled water products  
41 and potable water products. If we were to continue  
42 with the marginal pricing approach to recycled water  
43 where we say "how much extra will it cost us to make  
44 that", that gives all the wrong signals because it  
45 means that we fail to consider the cost, the total  
46 cost, that could be faced if we are unable to  
47 substitute potable supply with recycled product.

48  
49 In the mean time we know in Perth, which is in  
50 a much more difficult position than us, people are  
51 very happy to spend hundreds of millions of dollars  
52 on a desalination plant. We don't want Sydney to  
53 find itself in that position because that would be a  
54 very big price for consumers to pay over the long  
55 term. It is very important that we now turn to  
56 those things we can do to use up all of the low cost  
57 options to make better use of the water we have got  
58 rather than letting things drift such that those

1 very large capital costs are incurred in the future.

2

3 To conclude, the EPA is leading that process  
4 with the water CEOs. We are keen to do the research  
5 that is needed. We need to discuss now what precise  
6 questions will need to be answered so that we are on  
7 a good information base when we come to the 2005  
8 process.

9

10 The tribunal may wish to consider how it is  
11 involved in that process, and we would certainly  
12 welcome hearing that, so, what information would you  
13 be looking for as we come up to a price  
14 determination. And, to conclude, this is a very big  
15 issue, the time is ripe for change. The community  
16 is very interested in change. It is focused because  
17 of the drought and it is focused because of Sydney's  
18 population growth, which is a very topical issue and  
19 a very important one. We certainly support the  
20 continuation of the current price path on the basis  
21 that we are doing substantial work to set us up well  
22 for 2005.

23

24 DR PARRY: Thanks very much. We have before us at the  
25 moment, at least in some shape or form, a suggestion  
26 that at least with respect to Sydney Catchment and  
27 Sydney Water that there be a stepped pricing penalty  
28 price which Sydney Water pays to Sydney Catchment  
29 above certain levels. Does the EPA have a view  
30 about that proposal, including whether you have a  
31 view about the implementation of such a proposal if  
32 you support it?

33

34 MR SMITH: We think it is very important that price  
35 signals don't give the wrong signals to the  
36 management of organisations because the economic  
37 performance of the organisation will be top of the  
38 mind of the chief financial officer and the CEO of  
39 the organisation, so in principle we would support  
40 the stepped approach. We don't have available to us  
41 the data that tells us exactly what the number  
42 should be although clearly the estimate of secure  
43 yield provides a good base for the point at which a  
44 higher price should apply, and I guess probably the  
45 tribunal is better placed than us to know - it  
46 probably has a clearer idea about what it means to  
47 Sydney Water paying one price or another - but a  
48 signal that says it is not okay to keep selling the  
49 water, you are not to be rewarded for selling more  
50 water, that seems to make sense.

51

52 We think that all of these issues need to be  
53 examined and it will be up to the tribunal to decide  
54 whether we know enough to do that now or it should  
55 be part of the review.

56

57 DR PARRY: The ongoing CEO review?

58

1 MR SMITH: Yes.

2

3 DR PARRY: You mentioned secure yield and in fact others  
4 mentioned that through this process, indeed, it was  
5 mentioned in our earlier demand management forum as  
6 part of the mid-term licence review. Secure yield  
7 and security of supply have been discussed at length  
8 as one of the issues that sort of runs around my  
9 mind that goes to that and the whole question is the  
10 issue of restrictions. We have what apparently are  
11 voluntary restrictions. If you read the ad it is  
12 not clear whether they are voluntary or mandatory,  
13 but they are in place.

14

15 If we got more used to, we call them  
16 restrictions but they are arguably different  
17 practices like watering practices, garden watering  
18 practices, so we call them restrictions and maybe in  
19 other societies, other times, they have just been  
20 the standard. To what extent are you able to give  
21 us advice or is work being done that will help us  
22 form a view about whether changing those sorts of  
23 practices, what are currently called restrictions,  
24 might in fact flow through to changes in security of  
25 supply assumptions and yield assumptions which  
26 become quite important when we ultimately have to  
27 tackle the pricing question?

28

29 MR SMITH: I guess at the moment we use restrictions as  
30 a short-term measure for when we are in trouble. It  
31 seems to be working well as a good system for that.  
32 What will happen over the long term if we don't  
33 build in either rules that say how people are  
34 allowed to use water, which would be a new thing  
35 because at the moment we say if you are prepared to  
36 pay for it you can do what you wish with it, but if  
37 we say that is not good, we will not provide it for  
38 people to use as they see fit, there are  
39 restrictions on how it will be used, that reduces  
40 your base consumption flow load.

41

42 It is a very important question and it is  
43 certainly one option. It could be that the  
44 trade-off needs to be made where you say, well, it  
45 will be very expensive to augment supply, it may be  
46 as a society we say we will not use water for that  
47 purpose any more. It is just one of the factors in  
48 the mix.

49

50 The point I would emphasise is that it is the  
51 base level consumption that is a reflection of all  
52 of the built-in appliances, fittings and all the  
53 rest of it that determines what flexibility you have  
54 to respond to a drought. If you don't do all of  
55 that work, having just restrictions at the last  
56 minute won't save the day.

57

58 MR COX: You raise the question what additional research

1 we would want to see on the question of using  
2 pricing to reduce water consumption. I have to say  
3 that most of the research that we have seen does not  
4 suggest that pricing is particularly effective in  
5 doing that. We will be interested in research that  
6 shows us the contrary and why we might in practice  
7 expect to find some reduction in water consumption  
8 if pricing was changed. That is just a comment.

9  
10 MR SMITH: Can I respond just to share a bit of the  
11 experience we have had in the EPA with using price  
12 to control pollution. We used a scheme called low  
13 base pricing some years ago. What we discovered was  
14 that people don't respond rationally to price. This  
15 is not news to many people.

16  
17 What we found is that with a combination of  
18 price and a whole program around that to encourage  
19 and create norms of behaviour so that people did not  
20 want to be in a position of paying a big fee for  
21 their pollution has led to them investing  
22 disproportionate sums to avoid paying the charges  
23 that we have applied. For example, there would be a  
24 pollution fee of \$100,000 a year but you might find  
25 a licensee will spend \$10m capital to avoid that,  
26 whereas it would be cheaper to pay the fee.

27  
28 If we use price signals artfully in combination  
29 with communication to people it has two effects.  
30 One is, some people don't look at the bill and say,  
31 "I had better cut back because I will have to pay  
32 more". It props up voluntary effort. It makes  
33 people feel that they are doing to have to do  
34 conservation anyway but after a time people give up  
35 on that if they feel they are not being rewarded for  
36 it. I feel we need to evaluate the potential for  
37 pricing in that context quite separate to if we just  
38 put the price up without telling anyone what  
39 happens, whether it would change behaviour in that  
40 context. That is a fair point.

41  
42 MR COX: The issue needs to be addressed and the effect.  
43 If I can move on to stepped pricing, in principle it  
44 seems to me that the stepped pricing between SCA and  
45 Sydney Water is just a transfer of funding from one  
46 organisation to another. You have talked about the  
47 financial objectives of Sydney Water in making sure  
48 that it addresses demand management. The financial  
49 incentives of SCA also matter in that they too have  
50 an incentive that needs to be addressed. This issue  
51 needs to be considered further. It seems to me that  
52 Sydney Water is not only motivated by financial  
53 incentives like the SCA, it is totally unmotivated  
54 by financial considerations.

55  
56 MR SMITH: If Sydney Water was required to pay extra for  
57 consuming above 600 gegalitres per annum, what you  
58 do with that extra money is a whole separate

1 question. There is no reason why it should flow to  
2 the SCA. The tribunal members made that point this  
3 morning.

4  
5 MR COX: Moving on, your submission quite rightly talks  
6 about the issue of living within the limited amount  
7 of water that Sydney now has. We don't talk so much  
8 about some of the other environmental issues such as  
9 standards of waste water plants and sewerage  
10 overflows. What sort of standards can be expected  
11 over the next five years and is there anyway that we  
12 can give the water authorities greater certainty so  
13 they know what standards they will be required to  
14 meet over a five-year period?

15  
16 MR SMITH: This is a question about the discharge  
17 standards?

18  
19 MR COX: And sewerage overflows.

20  
21 MR SMITH: What we have put in place probably is that it  
22 is worth separating out the ocean plants from inland  
23 plants. With the inland plants, with the larger  
24 ones we have set in place requirements that we  
25 expect to continue, which is the bubble licence, so  
26 there is a mass limit on the total number of plants  
27 in operation. The biggest issue has been looking to  
28 see what reductions in nutrient levels might be  
29 necessary and the key uncertainty is the science on  
30 what the priority is for nitrogen. At this point we  
31 are not in a position to say. We have not yet  
32 identified a need for a lower nitrogen level the  
33 last time we reviewed that bubble licence.

34  
35 In terms of the ocean outfall plants, I guess I  
36 am not aware of information that says that we are  
37 going to be requiring a higher standard for the  
38 ocean plants. There will be so much change that  
39 will focus a lot on where water is going, not  
40 necessarily the pollution loads contained within it,  
41 and that may well overtake some of this over the  
42 next five years.

43  
44 MR COX: What about sewerage overflows?

45  
46 MR SMITH: At this point the current licence conditions  
47 that require no deterioration in terms of the  
48 overflows will prevail. Where we have identified  
49 particular problems, and we have been negotiating  
50 long-term pollution programs with Sydney Water, that  
51 will continue.

52  
53 MS CIFUENTES: This may not be a fair question to put to  
54 the EPA but I think it is an issue that has to be  
55 put on the table because we are focusing so much on  
56 price. There seems to be an expectation - of course  
57 we will look at this for the 2005 review - and you  
58 have outlined a number of issues that we need to be

1 satisfied with with respect to that, but I wonder  
2 whether it is foremost in anyone's mind that, let's  
3 say we do go that path, we do increase prices and  
4 increase them substantially, what happens if that  
5 does not work? What happens if demand does not fall  
6 as expected and, if we believe existing research,  
7 the suggestion is that it may not fall that much, we  
8 then have a situation where we still have excessive  
9 demand and excessive prices? I am not actually  
10 expecting an answer from you in that sense.  
11  
12 MR SMITH: I am happy to do that. I am not aware of  
13 anyone who is proposing reliance on pricing. We  
14 think as one part of a tool, the framework we see is  
15 that the Government, the advice from the Government  
16 on the framework is that there are 20 or 30  
17 substantial things you could do to manage the water  
18 cycle. Price is one of those things. You would  
19 want to start with all of the ones that look  
20 promising and most cost effective, work through  
21 those and see how you go. These things don't change  
22 quickly. You can adjust as you progress.  
23  
24 Probably what we would first recommend is not  
25 putting prices up but restructuring prices.  
26 Protecting the welfare of low income people is very  
27 important and that should not be affected. That is  
28 clearly a priority. Reducing the fixed component,  
29 increasing the variable component, talking about it  
30 a lot, whether it is a huge change in price, I still  
31 think it will make a big difference. We just need  
32 to see how it goes.  
33  
34 MS CIFUENTES: Would you agree we need to be satisfied  
35 that all other options have been considered first?  
36  
37 MR SMITH: I don't think it will be your last option, it  
38 is just one of the options that needs to be  
39 considered and it should be just put up there and  
40 assessed on its merits and based on its likely  
41 success.  
42  
43 MS CIFUENTES: Your submission talks about an integrated  
44 water cycle. I have noticed that comes up in a  
45 number of other submissions. In all honesty I don't  
46 really understand what it means in the context of an  
47 average established household.  
48  
49 MR SMITH: What it means is saying the water system that  
50 we have at the moment, there are various supply  
51 sources, treatment and delivery mechanisms and  
52 sewerage removal systems, so that is the framework  
53 that the whole Sydney Water operating licence and  
54 SCA is structured around. There are other sources  
55 of water, particularly stormwater, that need to be  
56 considered, and there are other uses for effluent as  
57 part of supplementary supply.  
58

1 How it might work out in any particular  
2 household, it could be in the future all new houses  
3 were required to have a rainwater tank, as one local  
4 government authority has already done, and that is  
5 used straight away for non potable purposes. That  
6 will clearly have a very big effect on the capital  
7 programs of Sydney Water in the future in terms of  
8 the total supply that needs to be provided. The  
9 point is you can't just look at one piece.  
10  
11 MS CIFUENTES: I can accept that for new developments,  
12 but for established developments, to reconfigure  
13 your water cycle in a sense implies substantial  
14 cost.  
15  
16 MR SMITH: Not always. You would have seen Sydney Water  
17 talking about 250,000 shower heads being replaced.  
18  
19 MS CIFUENTES: One of your examples was capturing  
20 stormwater off the roof. For your average  
21 householder that implies some additional cost. How  
22 do we convince people that it is in their interest  
23 to pay for these things so that their use of water  
24 is less? That is the difficulty I have with a lot  
25 of these proposals, that the bottom line is they  
26 will require some expenditure by householders and  
27 how you reconcile that with the equity issues?  
28  
29 MR SMITH: I guess that is why the government is  
30 currently offering \$500 or more to householders who  
31 wish to do that as support, because they know that  
32 not everyone wants to do this right away. But there  
33 are a lot of people who do and those who do receive  
34 a benefit.  
35  
36 MS CIFUENTES: I think it will be an issue, but thank  
37 you.  
38  
39 DR PARRY: Thanks very much.  
40  
41  
42  
43  
44  
45  
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58

1 TOTAL ENVIRONMENT CENTRE

2 and

3 NATURE CONSERVATION COUNCIL OF NSW

4

5 DR PARRY: We now have the Total Environment Centre, to  
6 be followed by the Nature Conservation Council of  
7 New South Wales. Could you please identify yourself  
8 for the record, give us your presentation, and we  
9 will hold off questions until you are joined by  
10 Peter Prineas.

11

12 MR MARTIN: Leigh Martin, from the Total Environment  
13 Centre. I want to start with the point that whilst  
14 we acknowledge that there is some merit in the  
15 current proposal to have a two-year determination  
16 for the agencies, because there is certainly some  
17 sense in bringing pricing into alignment with the  
18 operating licence reviews, we would not like to see  
19 that used as a reason to avoid significant reforms  
20 that could be made and that need to be made at this  
21 point.

22

23 There is always the temptation with a shorter  
24 period of review to defer important issues to later  
25 in the piece and we very much see it as not a valid  
26 reason for deferring some of those issues. Probably  
27 a good example of that is the issue of stepped  
28 pricing which we see as possibly the most  
29 significant reform or one of the most significant  
30 reforms for pricing that could be made in this  
31 determination.

32

33 We have been arguing for a couple of years now  
34 that the current situation whereby Sydney Water can  
35 profit from failing to achieve their demand  
36 management targets is a glaring anomaly which does  
37 send to them a signal that conflicts with the  
38 requirements of their operating licence and I really  
39 think that we struggle to see Sydney Water meeting  
40 their demand management requirements until such time  
41 as that anomaly is addressed.

42

43 We are very strongly supportive of a move  
44 towards a stepped pricing regime. The issue does  
45 arise as to what you do with the additional revenue.  
46 I will talk a bit later about the SCA and some of  
47 the uses that it could put that to.

48

49 Another option would be a direct injection of  
50 funds into increased demand management. Whatever  
51 the situation, we need to create a climate in which  
52 it is more cost effective for Sydney Water to invest  
53 in demand management than it is for them to pay a  
54 penalty price to the SCA.

55

56 We really want a situation where hypothetically  
57 they may decide that it is cheaper to distribute  
58 low-flow shower heads or to assist the Department of

1 Housing's retrofit program to a greater extent  
2 rather than simply to incur the financial penalty.

3 We noted from the tribunal's papers that their  
4 surplus revenue was in the vicinity of \$35m to \$72m.

5 While ever that situation is in place, there is  
6 unlikely to be a necessary impetus for Sydney Water  
7 to address demand management. Equally, there is  
8 less likelihood I think for there to be support from  
9 Treasury for demand management because Treasury has  
10 an interest in ensuring that the dividend of Sydney  
11 Water is maximised.

12

13 We see that as a very important step that the  
14 tribunal can take and we encourage you very strongly  
15 to do that in this review.

16

17 I suppose another point that we noted from the  
18 discussion paper was the consideration of inclining  
19 block pricing. We recognise that the tribunal has a  
20 degree of ambivalence about that because there is  
21 the concern that people would not necessarily be  
22 aware of which block they were in until the  
23 quarterly bills were received. You probably have to  
24 look at inclining block pricing as not something  
25 that would operate in isolation as a pricing  
26 mechanism.

27

28 As Simon was alluding to, it has the potential  
29 to be a very worthwhile education measure in that  
30 people would receive their quarterly bill and they  
31 may become aware that they have slipped into a  
32 higher block and if that was coupled with a clear  
33 indication on their bill that that had been the case  
34 and that there were options available to them to  
35 ensure that that would not occur in the future -  
36 ultimately we would like Sydney Water offering  
37 assistance to people on ways they can reduce their  
38 water use - that would I think operate as a powerful  
39 education measure for encouraging people to reduce  
40 their water.

41

42 It would also be a way of making them feel that  
43 they are getting a reward for something they  
44 voluntarily do to reduce their water use. If they  
45 can get a feeling that there is a reward there if  
46 they actually introduce some measures to reduce  
47 water use, if they change the household practices,  
48 if they install a low-flow shower head or have a  
49 more efficient washing machine, that there is some  
50 incentive there, that that will be recognised by the  
51 fact that there is a potential for them to be placed  
52 in a lesser pricing block. In that respect it needs  
53 to be viewed not just as an economic instrument but  
54 also as a potential powerful education instrument.

55

56 Another point that I wanted to make was that we  
57 have been concerned for many years and have argued  
58 for many years that the current split between fixed

1 and volumetric pricing needs to be changed and that  
2 the current level of fixed charges is too high and  
3 provides people with little incentive to reduce  
4 their water use because the control they have over  
5 their bill is minimal.

6  
7 I notice that the tribunal has done some work  
8 to look at the elasticity of demand with water  
9 pricing and you noted if there was a 10 per cent  
10 increase in price it might produce only a 1 to 3 per  
11 cent change in demand. That should not in itself be  
12 seen as insignificant. In the context of Sydney  
13 Water exceeding its demand management targets and in  
14 the context of other water agencies that are at or  
15 near the level of sustainable yield, something in  
16 the vicinity of 1 to 3 per cent has the potential to  
17 be a very significant reduction and provide some  
18 breathing space in terms of pressure on the supply  
19 augmentation.

20  
21 Even though pricing in itself may not offer a  
22 huge reduction in demand, it should be seen as a  
23 valuable tool to be used in a suite of demand  
24 management measures and that 1 to 3 per cent  
25 reduction, if that is the case, has the potential to  
26 play a significant role. More than necessarily just  
27 a general increase in price, we very much see it  
28 important to change the split so that people are  
29 given more control over the size of their bill via  
30 an increased reliance on volumetric pricing. In  
31 that respect we are supportive of the comments that  
32 Hunter Water made about conveying that in a strong  
33 resource conservation system. That should be  
34 applied to the other water agencies as well.

35  
36 I also wanted to discuss waste water pricing.  
37 We are concerned that the current system of fixed  
38 charging for waste water again gives customers  
39 little control over the size of their bill and does  
40 not convey a resource conservation signal. It also  
41 does not reflect the costs associated with people's  
42 water use and the amount of sewerage that they  
43 discharge into the system. We think it is  
44 appropriate to recognise that the increased  
45 discharge of effluent results in a higher  
46 environmental cost by discharges to receiving waters  
47 than the cost of treatment and the cost of dealing  
48 with environmental problems.

49  
50 That should be reflected under the user pays  
51 principle in that those that discharge the greater  
52 quantities of effluent should be reflected in  
53 pricing via volumetric price, so we would support a  
54 two-part tariff for waste water along the lines that  
55 Hunter Water currently has being applied to Sydney  
56 Water.

57  
58 I think it is also important to recognise that

1 preventing augmentation is not the only goal of  
2 demand management. It is not accurate to say that  
3 if demand management is the goal that that should  
4 solely be achieved by changing the price for water  
5 use. One of the very significant benefits of demand  
6 management is reducing the amount of effluent that  
7 is discharged to receiving waters, so to that extent  
8 demand management not only is a benefit in terms of  
9 reducing pressure for augmentation but also reducing  
10 the impact on receiving waters. There should be a  
11 reflection of that in waste water pricing so that  
12 people actually do have more control over their bill  
13 and the reduced impact on the environment of  
14 discharging less effluent is reflected in the  
15 pricing regime.

16  
17 I think something that has tended to be ignored  
18 in the past is the environmental cost of discharging  
19 effluent and it needs to be more reflected in  
20 pricing in the future and it is something we would  
21 encourage the tribunal to explore very closely in  
22 this determination.

23  
24 I talked earlier about the Sydney Catchment  
25 Authority and its revenue requirements. One of the  
26 issues I suppose with Sydney Water paying a stepped  
27 price for the water it purchases from the Catchment  
28 Authority is that it provides a significant revenue  
29 stream for the Catchment Authority.

30  
31 We have got some significant concerns that the  
32 Catchment Authority is struggling to meet its  
33 requirements with catchment management at present.  
34 There are significant delays in the generation of  
35 the REP, for example. We also have some concerns  
36 that they are struggling to fulfil their obligations  
37 in terms of inspection and management of the  
38 catchment.

39  
40 There was an incident that I can recall of the  
41 Catchment Authority being unaware of bed cracking in  
42 two tributaries within a kilometre of stored water.  
43 That was drawn to their attention by environment  
44 groups. If anything, that is a reflection of the  
45 fact that they don't have the resources to devote to  
46 catchment management that is required.

47  
48 There is certainly a strong need for their  
49 revenue stream to be enhanced so that it can more  
50 adequately meet the catchment management  
51 requirements and it is really something that I think  
52 is essential in terms of the long-term security of  
53 our supply and ensuring that water quality problems  
54 in the future are avoided.

55  
56 Finally I wanted to talk about stormwater  
57 management. I suppose there is a continuation of  
58 the approach of fixed charges for stormwater.

1 Again, we believe that there should actually be some  
2 recognition of people who do things to reduce  
3 stormwater contribution. The current stormwater  
4 charges again have a high level of fixed charges  
5 which reduces the amount of control that people have  
6 over their bill. We have also believe that the  
7 costs of creating environmental improvements also  
8 need to be recognised in the funding that agencies  
9 devote to their stormwater management.

10  
11 We would like to see a move away from purely an  
12 engineering and hydrological focus and more of a  
13 protection of catchments focus. We would like to  
14 see included in the programs of works for the water  
15 authorities actual works to rehabilitate degraded  
16 storms and stormwater canals.

17  
18 So we would encourage the tribunal, when it  
19 determines the agencies' revenue requirements, to  
20 seek from them information about what work they  
21 could be doing to improve the management of  
22 stormwater. Again, we strongly support the current  
23 review of institutional arrangements as clearly the  
24 current arrangements are an impediment to stormwater  
25 management. Whatever the final arrangements are  
26 that are determined, there needs to be a very strong  
27 focus on ensuring that revenue is available to  
28 improvements in stream and channel restoration.

29  
30 DR PARRY: Thanks for that. We will deal with questions  
31 jointly later, so we now ask the Nature Conservation  
32 Council of New South Wales to join you. Could you  
33 identify yourself formally for the record.

34  
35 MR PRINEAS: Peter Prineas, and I am representing the  
36 Nature Conservation Council of New South Wales.

37  
38 The first point I would like to make is that  
39 there is a requirement under your Act, section  
40 11(f), to have regard to the need to maintain  
41 ecological sustainable development in these pricing  
42 determinations. It calls for appropriate pricing  
43 policies that take account of all the feasible  
44 options available to protect the environment. It  
45 talks about the need to maintain ecological  
46 sustainable development.

47  
48 That, of course, is defined in the EPA Act  
49 administered by the EPA. It was asked earlier why  
50 people would pay more money to install rainwater  
51 tanks, for instance. I think that needs to be  
52 considered in the terms of a broader picture, which  
53 is that it costs a lot of money to build a dam, a  
54 huge amount of money, and people pay for that in the  
55 price of water. Dams have tremendous environmental  
56 impacts which have to be paid for ultimately either  
57 by a lower quality environment or by having to  
58 remediate.

1  
2 Transporting human waste with water has huge  
3 environmental impacts that have to be dealt with and  
4 paid for, so to ask somebody to pay for a rainwater  
5 tank maybe a cheaper approach and probably is. I  
6 don't think we have actually got around to setting  
7 up the arrangements for that properly yet. When we  
8 do, I think it will be quite a popular option and it  
9 will exist side by side with traditional options.

10  
11 In terms of the price of water, 10 years ago  
12 typical residential water bills were low and they  
13 did not reflect environmental costs, water treatment  
14 and disposal. Today, despite some increase in the  
15 water price and the introduction of volume charging  
16 - a two-part tariff, which I think was a COAG  
17 initiative - Sydney Water Corporation's bills are  
18 still low. In real terms the Sydney Water  
19 Corporation bill is lower now than it was before  
20 IPART existed and I think that is evidenced in the  
21 next slide, a graph taken from your industry  
22 overview, which shows the four water agencies and  
23 their typical bills.

24  
25 You can see there is a decline in every one of  
26 them. With the two councils the decline in real  
27 price is most pronounced. Hunter Water is quite  
28 pronounced and Sydney Water is a decline but not as  
29 much as the others.

30  
31 What is happening here? We have a situation  
32 where over that same period the population has  
33 increased very significantly. Demand for water has  
34 increased over that period. Over the same period we  
35 have not produced more water, we have the same  
36 amount of water. In an uncorrupted market one would  
37 imagine that the price of water might have gone up  
38 in that period. So we have a situation where, for  
39 whatever reason, the market situation regarding  
40 water has not been reflected in price. There is a  
41 corrupted market. And I use that only in an  
42 economic sense, not in any other sense.

43  
44 I think you heard this morning from the SCA  
45 representatives that although they are not in a  
46 hurry for a price rise, they do believe that a price  
47 rise is in the offering. You heard similarly from  
48 Sydney Water Corporation representatives that they  
49 too believe that the price of water has to rise,  
50 although again they are not hurrying with that  
51 proposal.

52  
53 Sydney Water Corporation and Sydney Catchment  
54 Authority have done a lot. They are pretty well run  
55 organisations in the main but it would be wrong to  
56 say that they are meeting ESD obligations. The ESD  
57 is a very difficult goal and I don't know that any  
58 agency is meeting those obligations. That does not

1 stop us from making the point that there is still  
2 progress to be made.  
3  
4 In terms of Sydney Water, we have got improved  
5 water quality at the beaches, which is very good,  
6 and in Sydney Harbour we have got whales coming back  
7 into the harbour, so the water quality there has  
8 seen an improvement. However, Sydney Water is not  
9 meeting its demand management targets, which means  
10 that it's calling for water beyond safe yield from  
11 the reservoirs. It is not meeting government policy  
12 in terms of deferring the next major reservoir. It  
13 is risking the possibility that we will as a  
14 community have imposed upon us the possibility of  
15 another major dam as a means of supplementing  
16 supply, which is a cost both environmental and  
17 financial that we would rather avoid.  
18  
19 Similarly in Sydney Water it has to do a lot  
20 more in the urban area to improve stream water  
21 quality, stormwater and so on.  
22  
23 Sydney Catchment Authority also has a lot to do  
24 to meet its ESD obligations. River environmental  
25 flows are not being provided. We heard this morning  
26 that there is a possible capital cost alone of \$100m  
27 expected, and that of course has not been brought  
28 into play in their calculations yet.  
29  
30 We heard from Sydney Catchment Authority about  
31 the condition of catchments. There was reference to  
32 the CSIRO catchment audit - physical audit. I was  
33 surprised that a fairly sanguine impression was  
34 given from that document. If you look at that  
35 document's key findings, which I have included in  
36 the NCC submission, you will find that there are a  
37 lot of problems.  
38  
39 There are concerns about the capacity of the  
40 catchment to do what it is supposed to do, which is  
41 to deliver water of a good quality, potable water of  
42 good quality, and it's capacity to do that has been  
43 seriously compromised as the riparian of the system  
44 condition is poor in many thousands of kilometres.  
45 I don't think a lot of that work has been brought  
46 into the Sydney Catchment Authority's budget  
47 projections.  
48  
49 There is an argument for saying there should be  
50 some increased revenue to the Sydney Catchment  
51 Authority and indeed to Sydney Water to meet  
52 environmental costs and an increase in the price of  
53 water is one method of ensuring that that occurs.  
54  
55 Reading the IPART issues paper, the message I  
56 got was that IPART is not very enthusiastic about  
57 using pricing as a means of achieving demand  
58 management and I think there was a reference to a

1 table which showed how much price would have to  
2 increase to get any discernible or useful reduction  
3 in demand.  
4  
5 I don't think anyone is saying that price can  
6 do the job alone. Price should never be seen as a  
7 solitary approach to demand management. It has to  
8 be part of a suite of approaches. The benefit of  
9 price is to assist take-up. If you are offering a  
10 comprehensive non-price program, if the price  
11 setting is correct - and that means a price increase  
12 - you can use that to get people to take up the  
13 non-price measures.  
14  
15 If there is more revenue, that can be used to  
16 invest in DM. The Government is already giving  
17 rebates to people for rainwater tanks. That sort of  
18 program can be enlarged and in fact you could find  
19 Sydney Water investing substantially more in demand  
20 management than it is now.  
21  
22 There should be investment in a communication  
23 program. People are not getting the message  
24 adequately. The communication program needs to be  
25 led by the SC A. Sydney Water has a little bit of a  
26 conflict in that it can't sell water to customers at  
27 the same time as telling people not to take it. It  
28 would be better if the SCA led that program and for  
29 Sydney Water to have some role in the delivery of  
30 it. So there is a considerable investment needed  
31 there.  
32  
33 Our view is that both the Sydney Water  
34 Corporation and the Sydney Catchment Authority  
35 pricing proposals are inadequate. You are talking  
36 about no real increase over the next two years.  
37 That is not really going to achieve anything. It is  
38 necessary to do something now. We know, for  
39 instance, that Sydney Water Corporation has a huge  
40 problem in meeting its demand management target for  
41 2005. If it does not start seriously addressing  
42 that now it will just not do it, so we will be in  
43 the same position as we were in 2001.  
44  
45 We ask for an increase of residential water  
46 price. Whether you want to increase the price  
47 across the board or bring in an inclining block  
48 tariff, with the second block imposing a price, is a  
49 matter for the tribunal. I think the inclining  
50 block tariff is the way to go because it will  
51 introduce now an important structural change in  
52 pricing which is needed and you could actually bring  
53 in the second block structured in a way that it did  
54 not have a big impact initially and you could just  
55 tighten the screws a bit between now and 2005.  
56  
57 The step between the two blocks has to be  
58 significant because there is a certain elasticity in



1 demand. You have indicated 10 per cent in your  
2 papers. It might even be a bit more than that, the  
3 step between blocks. As was pointed out by the EPA,  
4 there are 10 per cent of residential water users  
5 that use roughly double the average and I think they  
6 are the group that need to be targeted first.

7  
8 Any inequity which fees in inclining block  
9 pricing can be addressed by the design of the  
10 arrangements and by the use of the community service  
11 arrangements, the CSO obligation arrangements, that  
12 are already there in place. They can be adjusted to  
13 assist so that people who were seriously suffering  
14 any serious hardship could approach Sydney Water and  
15 be accommodated under the CSO arrangements.

16  
17 NCC would be in favour of reducing the  
18 proportion of the charge of the bill that is a fixed  
19 charge. The Hunter Water Corporation has a lower  
20 level than all the other agencies and that should  
21 become the common level over the next two years.

22  
23 The NCC strongly supports a step price charge  
24 by SCA to Sydney Water from July 2003. We support  
25 the formula that was in the issues paper which  
26 defined the step price as the difference between the  
27 usage price and the marginal price and we would  
28 expect that to give Sydney Water a very considerable  
29 incentive to invest in alternative sources of  
30 supply - storm water harvesting, rainwater  
31 harvesting and the like. I think that needs to be  
32 done sooner rather than later.

33  
34 In relation to a waste water charge, we agree  
35 in principle there needs to be a waste water charge  
36 but for the present we would argue that any price  
37 increase should be loaded on to the fresh water  
38 supply price, not on to the waste water price,  
39 because I think if you spread your available  
40 increase over two charges, you are fuzzifying the  
41 signal. The signal should be sharp and concentrated  
42 in one area, which is the fresh water supply price.  
43 Thank you.

44  
45 DR PARRY: Thank you for that. It is interesting to see  
46 the environment groups becoming such hardline  
47 economic rationalists and the economic regulator  
48 worrying about the use of price. It is an  
49 interesting debate. I must say the question of an  
50 inclined block at the retail end, which has to be  
51 the flipside of step pricing, is an interesting  
52 concept. It is one that, speaking personally, I've  
53 always had problems with in the past but I must say,  
54 again speaking personally, it is one I am more and  
55 more interested in.

56  
57 Would you contemplate a reduction in the per  
58 kilolitre price in the first block to deal with some

1 of the impacts in terms of affordability, to give  
2 you a sharp signal? If it is the case that they're  
3 looking at say 10 per cent - we don't know - the  
4 differential between the first and the second block,  
5 accepting that it will be in the large family/low  
6 income group, for example, you'd worry CSOs might  
7 pick it up. Imperfect as those arrangements can be,  
8 if it is about signalling with the first block,  
9 "reasonable" sustainable consumption would  
10 contemplate that 90 cents going down.

11  
12 MR MARTIN: I suppose it is difficult to give an answer  
13 to that not knowing what the result would be and  
14 also what the price of that first block would be and  
15 at what level you would then step up to the second  
16 block. Those are things that we would probably need  
17 to explore. It is difficult to answer that question  
18 without that information.

19  
20 DR PARRY: Yes, I posed the question without knowing  
21 the answer myself. It comes to some of these issues  
22 of affordability impacts and price impacts.

23  
24 MR MARTIN: It is something that probably should be  
25 explored but we would need more information on where  
26 it would kick in and what the likely impact would  
27 be.

28  
29 MR PRINEAS: I would like to see some modelling. My  
30 instinctive reaction is to say it wouldn't be a good  
31 idea if you're setting out to give signals about the  
32 value of water; it doesn't help to start by reducing  
33 the price. I would prefer if it could be addressed  
34 through I think a proper design - in other words,  
35 where you put the step - and then through CSOs the  
36 initiative would have to come from the householder  
37 to make the application. Any other system would be  
38 either invasive, intrusive, unworkable or expensive.

39  
40 There was some mention of a situation in  
41 Barcelona where they count how many people live in  
42 each house. I am not sure we'd like that: that  
43 would be intrusive. Keep the price where it is,  
44 have a sharp rise for the second block, be careful  
45 about how you design it all and have a very workable  
46 CSO arrangement.

47  
48 DR PARRY: Still on price, from my perspective, I have  
49 to agree with Peter, that the price signalling is on  
50 the water side rather than the waste water side. I  
51 am intrigued with Leigh's comment - and it was put  
52 by a number of others - that the Tribunal has in  
53 some sense stood out against the tide of opinion on  
54 waste water pricing for the residential sector,  
55 whereas pricing of waste water for residential  
56 customers, in our view, is not likely to have  
57 significant influences on the use of waste water.

58

1 It is not the sort of thing where we see price  
2 really influencing water pricing, even accepting  
3 relatively low elasticities. It is still something  
4 that you're putting to us. I just wanted to tease  
5 it out a bit.

6  
7 MR MARTIN: I suppose you can achieve those things with  
8 the fresh water price, to an extent. I think it is  
9 also true the economic costs of waste water  
10 discharge are not currently reflected in pricing.

11  
12 DR PARRY: For the residential sector?

13  
14 MR MARTIN: Yes. Certainly the "polluter pays"  
15 principle is not reflected in the current fixed  
16 tariff. Hunter Water's two-part tariff is more in  
17 keeping with the "polluter pays" principle.

18  
19 DR PARRY: Moving away from price - and I raised this  
20 with the EPA - again, it is clear that safe yield  
21 and security of supply is related to our society's  
22 acceptance of what we now call restrictions but may  
23 in a different life be "different and better  
24 practice". To what extent can we modify some of the  
25 potential demands on price instruments by simply  
26 accepting that we may have restrictions more  
27 frequently and live within our sustainable yield?

28  
29 MR PRINEAS: We put that fairly strongly at the mid-term  
30 review and there was some discussion about the  
31 terminology "restrictions". Maybe we can think up a  
32 better practice or convention or rules or custom and  
33 just get people used to the idea of using water in a  
34 more frugal manner.

35  
36 With the education program that we were talking  
37 about earlier I think people, over a period of a few  
38 years, could be encouraged to change their habits  
39 very significantly and not feel much pain, not feel  
40 that they're denied much as a result. I think we  
41 have to do that and I think it really is an  
42 educational issue and a language issue and a matter  
43 of social norms that we have to address and I think  
44 we need to do this now; we need to start this  
45 process now.

46  
47 MR MARTIN: I agree and the TEC argued also in the  
48 mid-term review that we thought there should be a  
49 reduction in the security of supply criteria. That  
50 almost certainly will mean more frequent water  
51 restrictions but I am of a similar mind to you that  
52 perhaps "restrictions" isn't the best term.

53  
54 It is fairly easy to answer the question is the  
55 best value to the community from having that water  
56 made available for environmental flows or for people  
57 to continue using it to hose down concrete? The  
58 overall benefit to the community is such that I

1 think there probably would be some acceptance of  
2 making it no longer permissible for people to use  
3 water in that way or restrictions on when they use a  
4 fixed water system.

5  
6 I think there's quite a significant benefit in  
7 keeping that water in the river systems. I think  
8 that is something that needs to be explored. It is  
9 also true that the imposition of water restrictions  
10 can actually play a valuable role in changing water  
11 use patterns over the longer term.

12  
13 One of the things that was of great benefit to  
14 Hunter Water at the same time that they introduced  
15 pay-for-use pricing was they had an extended period  
16 of water restrictions and that changed water use  
17 behaviour in a way that proved to be sustainable for  
18 many years.

19  
20 DR PARRY: Thank you.

21  
22 MS CIFUENTES: This is probably a silly example but it  
23 came to mind, Leigh, as you were speaking. One of  
24 the issues facing the community not so long ago was  
25 people walking their dogs along the sidewalk and the  
26 problem of dogs fouling footpaths. Councils  
27 introduced fines - in effect, a financial penalty  
28 price signal - and that didn't appear to have much  
29 success mainly because there weren't enough rangers  
30 or what have you patrolling to see whether people  
31 cleaned up after their dogs.

32  
33 What seemed to have had much more impact was  
34 community expectations of how people would use  
35 communal areas, footpaths and parks. It is probably  
36 a silly example but one that might be indicative of  
37 the sort of proposals you've put forward.

38  
39 MR MARTIN: The point is if you want to call a fine for  
40 allowing your dog to defecate in a public place a  
41 pricing signal. I suppose a pricing signal is not  
42 conveyed by the lack of enforcement. If anything,  
43 it is an example of how pricing and education can  
44 work together. That is an example of where pricing  
45 of itself can never be the whole answer. It needs  
46 to be something that works in concert with a suite  
47 of demand management measures.

48  
49 MS CIFUENTES: Could I go to your submission. This is  
50 moving right away from price. In your submission,  
51 in the section on stormwater management, you have a  
52 proposal that the Tribunal should not provide  
53 agencies funding that will simply be used to fund  
54 environmentally damaging, hard-engineering  
55 approaches, such as the channelling and sealing of  
56 natural watercourses, but that projects which have  
57 more enlightened, presumably environmentally  
58 friendly outcomes, should be funded.

1  
2 What does that imply with respect to the role  
3 of the Tribunal in approving specific capex projects  
4 and the micromanagement of those? How would we go  
5 about evaluating what projects are more  
6 environmentally sensitive? It implies quite a  
7 significant shift in the Tribunal's thinking away  
8 from prudent and economically efficient capex to  
9 something quite different. Is there a better way of  
10 incorporating that than the Tribunal sitting over  
11 Sydney Water or the Sydney Catchment Authority and  
12 saying, "No, we don't think that's as  
13 environmentally sensitive as it could be"?  
14  
15 MR MARTIN: Yes. I suppose what alerted us to this  
16 issue was that as part of their justification for  
17 the pricing that they were seeking, that  
18 Gosford Council submitted a list of their proposed  
19 stormwater projects and certainly the focus of those  
20 was very strongly on traditional hard engineering  
21 and approaches which were simply ideological issues  
22 and there was a lack of emphasis of things to reduce  
23 the volume of stormwater entering the system, things  
24 to improve the quality of stormwater and stream  
25 restoration.  
26  
27 If a water agency is seeking a certain price on  
28 the basis of that type of project, you would seek  
29 from them some information as to what other things  
30 they would be doing and whether there would be  
31 alternative approaches. It is hard to justify  
32 supporting a program that is based entirely on  
33 engineering approaches such as Gosford Council's  
34 proposed program of works.  
35  
36 MS CIFUENTES: Is there an implication that the  
37 environmentally sensitive projects would be less  
38 costly than the traditional engineering projects?  
39  
40 MR MARTIN: Some may not; some may be more costly. It  
41 needs to be remembered they'll also reduce the  
42 environmental costs by the pollution of receiving  
43 waters. I think agencies need to be very much made  
44 to demonstrate to the Tribunal that they are  
45 exploring all of those things in the projects that  
46 they seek prices to cover.  
47  
48 MS CIFUENTES: Thank you. Just on that same page, you  
49 discuss a proposal again for stormwater, that it  
50 should be linked to the total area of impervious  
51 surfaces on each property. Can you comment on some  
52 of the practical issues of who would go around  
53 measuring these surfaces in a dynamic fashion so as  
54 to keep up with renovation and how we would  
55 translate that into a pricing mechanism?  
56  
57 MR MARTIN: The most useful way of doing that would be  
58 by developer charges, by developer contributions.

1 We've argued for some time that developer charges  
2 should reflect the environmental impacts of a  
3 proposed development. For instance, a development  
4 that includes a significant increase in hard  
5 surfaces should attract a higher developer  
6 contribution than one which adopts a more sensitive  
7 approach, that incorporates water sensitive urban  
8 design features. Probably developer charges would  
9 be the most effective mechanism.  
10  
11 It would be very difficult to do it for an  
12 existing development. It could be done then, yes,  
13 but a mechanism would need to be determined. I  
14 don't know what that is. Certainly a new  
15 development provides a very obvious avenue for  
16 changing the emphasis, so that the actual amount of  
17 run-off from a development is reflected in the  
18 price.  
19  
20 MS CIFUENTES: I will ask one last question, if I may,  
21 and I know we're running short of time. At this  
22 morning's presentation the Sydney Catchment  
23 Authority indicated that it didn't particularly  
24 support the notion of having a special catchment  
25 levy or the additional revenue from step pricing  
26 used to fund its core activities of catchment  
27 management. What is your view on that?  
28  
29 MR MARTIN: We addressed that in the submission and we  
30 were not surprised Sydney Water would resist the  
31 introduction of step pricing. We were somewhat  
32 surprised that the Sydney Catchment Authority would  
33 and very disappointed that they would express a  
34 degree of ambivalence.  
35  
36 We are frustrated that there seems to be almost  
37 an institutionalised resistance to reform amongst  
38 the water agencies. In their situation there is a  
39 preference for reform inertia, I referred to it as.  
40 To that extent, I think the catchment authority also  
41 needs to be given something of a nudge in terms of  
42 embracing performance as well. I would interpret  
43 that as simply an ingrained preference for  
44 maintaining the status quo because that in itself  
45 doesn't create implementation issues as much as  
46 anything.  
47  
48 MR COX: I have just a few questions. The first one is  
49 this small group of users who use twice as much  
50 water as the average - about 10 per cent use twice  
51 as much water as the average - do you know who these  
52 people actually are and secondly, how much  
53 difference does it make to your thinking if they  
54 were large families living in the hot, dry suburbs  
55 of Western Sydney?  
56  
57 MR MARTIN: I couldn't give you a list of names of who  
58 they might be.

1  
2 MS CIFUENTES: But you'll work on it.  
3  
4 MR MARTIN: We'll undertake some research. The second  
5 part is, I suppose, as I was arguing with step  
6 pricing, that's where the role of the agencies in  
7 terms of actually providing assistance is  
8 particularly important. We would like to see a  
9 situation whereby Sydney Water was actually  
10 investing in demand management rather than seeking  
11 to sell the water.  
12  
13 Yes, there is the issue of how it impacts on  
14 large families and that is a major issue. They are  
15 the group who could benefit the most by giving them  
16 assistance to reduce their water use and the  
17 potential economic benefits to a large family on a  
18 limited income becoming more water efficient  
19 shouldn't be ignored. That is why we would like the  
20 agencies to actively participate in assisting  
21 customers to reduce their water use.  
22  
23 MR PRINEAS: I read in the paper that they lived in  
24 Woollahra.  
25  
26 MR COX: I thought it was Mosman.  
27  
28 MR PRINEAS: Was it Mosman? I think they could be  
29 attacked with some security.  
30  
31 MR COX: It does depend who it is.  
32  
33 MR PRINEAS: If they turned out to be worthy, large  
34 families living in the Western Suburbs, we would  
35 have to worry about the impact. I am using that  
36 term loosely.  
37  
38 MS CIFUENTES: Could we have some clarification there,  
39 please?  
40  
41 MR PRINEAS: Yes. I guess one needs to be mindful of  
42 the equity issues, but I think the kind of family  
43 that would use twice as much water having showers or  
44 washing their clothes is going to be rather the  
45 exception.  
46  
47 DR PARRY: And very clean.  
48  
49 MR PRINEAS: I have been comparing my water bill - I  
50 live in an inner city terrace - for the last two  
51 years with a friend of mine who has a large family  
52 and lives at Church Point and has a swimming pool.  
53 He always pays less than me and he's the sort of  
54 person I think I've got in mind for the declining  
55 block tariff and he readily agrees that it is a  
56 ridiculously cheap bill for the amount of water that  
57 he gets.  
58

1 I think there are probably quite a few people  
2 in that position, with a pool and a large garden.  
3 That's where all the extra water goes in most cases,  
4 I think.  
5  
6 MR COX: We would like to know more on this issue and I  
7 personally am not very optimistic that CSOs can in  
8 practice solve the problem, I have to say that.  
9  
10 MR PRINEAS: Inclining block tariffs are only used for  
11 equity reasons. It is a bit rich to attack them on  
12 equity grounds. If you really wanted it to be  
13 equitable you'd have a higher flat price and  
14 everybody would pay it. Let's not get too hung up  
15 on the inequity of declining block prices. They are  
16 in fact, as far as we've been able to proceed with  
17 them, an equitable response.  
18  
19 MR COX: I would like to see more work to establish  
20 that. Can I now move on to the catchment authority  
21 where you suggest they had could usefully spend some  
22 more money. Actually, they don't seem to be all  
23 that enthusiastic about doing that. The reason they  
24 mentioned this morning was that they had to do a  
25 fair degree of additional planning work in terms of  
26 cash restoration plans, I think was the term, before  
27 they knew how the money could best be spent. Do you  
28 have any thoughts on that?  
29  
30 MR PRINEAS: Firstly, the object of the step price is  
31 not to deliver a windfall to the SCA, it is to get  
32 Sydney Water to do what it is supposed to do, which  
33 is not consume more water or order more water from  
34 the SCA than it is supposed to: that's the measure  
35 of success. The SCA gets no extra money;  
36 Sydney Water meets its demand targets; Sydney Water  
37 invests in alternative sources of supply.  
38  
39 The object is not to give the SCA a windfall.  
40 If the SCA does get a windfall it can be dealt with  
41 as a matter between the SCA and the government. The  
42 government could increase the dividend requirement.  
43 My preference would be for some of that money,  
44 depending on how much it is - I have no idea - to be  
45 invested in the communication program we were  
46 talking about, the DM communication program, which  
47 is going to underpin any effective DM and which  
48 we're not getting. We're getting programs but  
49 they're not really there in your face. You just  
50 don't hear about them very much unless you're  
51 interested.  
52  
53 I would like to see that being the first call  
54 on the money. I said earlier and I think I said in  
55 the submission that I don't agree with the SCA's  
56 outlook in terms of expenditures on catchment. I  
57 think they're going to be much higher than the SCA  
58 seems to be indicating.

1  
2 The CSIRO report is a clear indication of a  
3 gigantic task and I'm not saying they should be  
4 throwing every bit of money that they have and it is  
5 WWII or something, but I think out of the \$70m  
6 annual budget only \$13m has any possibility of  
7 getting on to the ground as catchment improvement,  
8 the way they've allocated their budget: \$13m. I am  
9 not sure that you're going to get a dollar's worth  
10 of value for every one of those dollars spent.  
11  
12 With respect to their resourcing of the  
13 catchment, which is an area of 1.6m hectares - and  
14 the CSIRO says it is in a condition where it is  
15 severely compromised in terms of catchment  
16 efficiency and producing good, clean water - I think  
17 there's going to be a bigger call for funds. I  
18 think the problem for the SCA is not how to spend  
19 its money but where to get enough money to spend.  
20  
21 MR COX: Thank you for that. Finally turning to  
22 Sydney Water, you commented on their inability to  
23 meet the demand management targets. John Kitney  
24 argued this morning that their demand management  
25 performance hadn't been too bad. Secondly, to what  
26 extent do you think that their failure to meet the  
27 targets is due to their financial incentives as  
28 opposed to other difficulties in meeting those  
29 targets?  
30  
31 MR MARTIN: It is true the level of water use has  
32 reduced, the actual per capita consumption has  
33 reduced, and Sydney Water, I suppose with some  
34 justification, like to promote that, but it is also  
35 true that it hasn't been reduced to the level that  
36 it needs to be reduced or it is required to be  
37 reduced. Information that was produced to the  
38 Tribunal by Sydney Water and the catchment authority  
39 at the mid-term review showed the trend is actually  
40 towards increasing water use, that we'd reached a  
41 trough prior to the Olympics and in that point in  
42 time it has been increasing.  
43  
44 I think that the incentive via increased  
45 revenue is part of the reason for that. Another  
46 reason is that there may have been a loss of  
47 momentum when there was a decrease in the per capita  
48 use of water and perhaps that resulted in a  
49 relaxation because things were thought to be on  
50 target. I have also noticed when water use is  
51 decreasing, if you believe what Sydney Water has to  
52 say, it's because of their demand management work;  
53 when water use increases it is because of climate.  
54  
55 I think there is a range of factors for it.  
56 The incentive for failure is part of that but  
57 perhaps a lack of investment in demand management  
58 over the past few years is a reason for that. I

1 think the Montgomery Watson Harza report the  
2 Tribunal commissioned highlighted the fact that  
3 important factors in demand management were lagging  
4 behind schedule.  
5  
6 MR COX: Thank you.  
7  
8 DR PARRY: Thank you very much indeed. That was very  
9 helpful. The Tribunal will resume in about  
10 15 minutes under Jim's chairmanship. Thank you  
11  
12 (Short adjournment)

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2  
3 MR COX: We will now resume with the Public Interest  
4 Advocacy Centre. Could you introduce yourself for  
5 the record, please, and then proceed.

6  
7 MR WELLSMORE: Thanks. I'm Jim Wellsmore, policy  
8 officer with the Public Interest Advocacy Centre.  
9 Firstly, I'd like to thank the tribunal for the  
10 opportunity once more to appear before you and  
11 perhaps expand a little bit on our written  
12 submission.

13  
14 I'd like to make a few brief points about some  
15 of the main areas in our submission and then spend a  
16 little bit of time discussing the issue of price. I  
17 suppose I should preface that by saying that we have  
18 in our submission concentrated on the retail water  
19 agencies and haven't really considered very much the  
20 issues about the Catchment Authority, so the  
21 comments I'm going to make today really apply to  
22 Sydney Water.

23  
24 In broad terms, the proposal that has come from  
25 Sydney Water for a CPI increase is, we think, quite  
26 an okay one. It's a two-year price path. One per cent  
27 above and below CPI would seem to be a minor issue  
28 for the vast majority of households.

29  
30 We are probably more interested in issues about  
31 opex and capex. We think there's probably an  
32 intuitive belief in some areas of the community that  
33 more should be done in the area of capex  
34 particularly. Obviously that's a point that has  
35 been picked up by Halcrow. Whether that should be  
36 done within the existing arrangements and through  
37 finding greater efficiencies or not, I think we're  
38 happy to be guided by the tribunal.

39  
40 We're not fanatical about more efficiencies.  
41 We think there's a limit to how much more efficient  
42 the businesses ought to become. Lean and mean is  
43 all right, as long as you don't have too much of a  
44 mean in there, and reliability issues, and so forth,  
45 going forward are issues for us as well.

46  
47 We're particularly interested in the rate of  
48 return discussion. That for the time being seems to  
49 have been deferred until the next determination in  
50 2005, which I guess probably suits us in terms of  
51 the reverse implications, being a small community  
52 organisation. We'll certainly be looking forward to  
53 that discussion in the not too distant future.

54  
55 The issue about the windfall to Sydney Water  
56 not having complied with its demand management  
57 targets - or the over-recovery perhaps, if you  
58 like - is something that we would expect to get

1 dealt with. We probably don't agree with Sydney  
2 Water on this issue. As much as forecasting is  
3 always a little bit of a fraught exercise, at some  
4 point over-recovery needs to be addressed and  
5 over-recovered money given to some appropriate  
6 purpose - either returned to customers or dedicated  
7 to some other sort of appropriate use. In the  
8 context of the current debates with land management,  
9 it would seem to be one of those sorts of uses.

10  
11 Sewage we've spoken about, covered very briefly  
12 in our written submission. Around the issue of the  
13 balance between fixed and volumetric charges, I  
14 think to a large extent we're probably of a mind  
15 with Tom and the comments he made earlier, that  
16 usage in the area of sewage wastewater in households  
17 is probably not a burning issue for households. I  
18 know there will be a view that says if you price it  
19 differently, it might become that. Obviously it's  
20 no surprise we'd be concerned about the equity  
21 issues with regard to changing the way sewage is  
22 priced.

23  
24 Having said that, we're not at all clear about  
25 what that actually means, whether we should have a  
26 different balance between fixed and usage, whether  
27 Sydney Water, with just all fixed, is better or  
28 worse than the way Hunter seems to be going, going  
29 all towards usage, volumetric type. It's notable  
30 that Sydney and Hunter deal with this differently,  
31 or price it differently, but are the outcomes for  
32 customers particularly different? It doesn't seem  
33 to be the case that they are very different.

34  
35 That really brings me to the points that I want  
36 to emphasise today about price and the use of price.  
37 I suppose we've all actually been taken a little  
38 aback by the fact that there's such an interest from  
39 a number of groups making submissions to the  
40 tribunal in the current determination to use price  
41 as a demand management measure. I think we at PIAC  
42 have pretty much felt this was a dead issue.  
43 Nevertheless, everybody seems to be quite excited to  
44 get into it.

45  
46 It is interesting to look at the historical  
47 examples, particularly from Hunter Water, about the  
48 restructuring and moving towards a two-part tariff  
49 and sort of saying, "Look, there's some correlation,  
50 at least in time, between the change to a partly  
51 volumetric charge and reduction in per capita  
52 consumption." From our perspective, that certainly  
53 bears out the view that Sydney Water put forward  
54 that the community these days is much more  
55 interested in the notion that you pay for what you  
56 use. We think that is accepted by the community.  
57 But it's a very, very different matter, we think,  
58 from a debate about trying to use charges,

1 volumetric or per unit charges for water, being an  
2 essential service, to achieve a particular outcome.  
3 In this case, it would seem to be an environmental  
4 outcome.  
5  
6 As the tribunal will know, PIAC is largely  
7 interested in households, low-income households in  
8 particular. It's possible that some of the  
9 discussion that has gone on is really directing the  
10 idea of price increases at customers other than  
11 low-income households, for example, being very large  
12 commercial industrial customers.  
13  
14 Having said that, of course, we're very  
15 conscious that Hunter Water, particularly in the  
16 past, have received approval to actually reduce the  
17 rate at which they're charging their large customers  
18 for water. So, from our perspective, we're then put  
19 back in a position of thinking perhaps we need to be  
20 a bit more assertive in defending the interests of  
21 low-income households, and I suppose households  
22 broadly, because the sort of information that's in  
23 the public domain - for example, through the  
24 Montgomery Watson Harza consultancy - suggests that  
25 households in recent times have in fact made the  
26 largest contribution to the per capita reductions in  
27 consumption. So households, it seems to us, are  
28 actually doing a fair amount of their share.  
29  
30 To have the argument then made, "We'll make  
31 them pay a bit more and get a bit more out of them"  
32 when the other groups perhaps are not achieving the  
33 same sort of level of savings is a difficult one for  
34 us to face.  
35  
36 It's interesting to note the data that was  
37 published recently about the areas of Sydney that  
38 are the thirstiest in terms of household  
39 consumption. Maybe we need some variation in  
40 volumetric charges which includes a  
41 location-specific component to it. Maybe that's a  
42 variation to the block tariff approach. At the end  
43 of the day, you still have the same question, is it  
44 going to work, is the behaviour actually going to  
45 follow the so-called price signal?  
46  
47 From what we've seen, the inelasticity is a  
48 major problem which so far proponents of prices, the  
49 land management measure, haven't managed to  
50 overcome. We find the model in the tribunal's  
51 issues paper to be very compelling in terms of the  
52 extent of the elasticity and the resistance of the  
53 behaviour to the so-called price signals.  
54  
55 I think if you're going to argue that  
56 consumption behaviour is that elastic, you need to  
57 explain how it is that, in a period when, by the  
58 tribunal's own figures, in real terms water prices

1 in Sydney have been falling in fact consumption has  
2 not gone up as a response to that. If we're going  
3 to be elastic, it has to work both ways, and if  
4 prices are falling in real terms, we're all using  
5 more, except we're not using more.  
6  
7 Inelasticity is still the most severe problem,  
8 and in fact the example that I've mentioned earlier  
9 of Hunter Water, or even if you take Sydney Water in  
10 the early '90s, it's impossible to separate out  
11 price, or restructuring of price, from other  
12 factors, like water restrictions and changes in  
13 community attitudes, which may well be - in fact, in  
14 our submission, certainly is - much more important  
15 than what you're actually doing with price.  
16  
17 Just to wind up on this point, the proponents  
18 of using price as a DM measure constantly sort of  
19 excuse the kind of lack of evidence that they seem  
20 to have for their case by saying, "Well, look,  
21 that's all right anyway. Price is only going to be  
22 one of a whole suite of measures." In our view,  
23 we'd like to see that suite of measures first and  
24 have some broader consensus about what we're going  
25 to do as an entire community and across all the  
26 various options that might present themselves before  
27 we then just say, "Let's just go for price and we'll  
28 work the rest of it out later." Let's actually get  
29 a holistic approach.  
30  
31 It might be the case that the community is  
32 actually prepared to say, "Well, here's a really  
33 good program, we know it's going to work, it has all  
34 these good options that people will support and take  
35 up. It might cost us an extra couple of cents per  
36 kilolitre. We're prepared to wear that because we  
37 know we'll get the outcomes."  
38  
39 To rely on price, saying, "We'll backfill  
40 later, we have great ideas, but we don't know what  
41 they are yet" is really, I think, a sort of thin  
42 argument. At the end of the day, let's put the  
43 price up, great. What if it doesn't work - Cristine  
44 raised this point today - we'll be back here in two,  
45 five, 10 years discussing what we will do with the  
46 over-recovered money, because Sydney Water have been  
47 told to put their prices up, consumption behaviour  
48 hasn't changed as a result, what do we now do with  
49 all of that?  
50  
51 Step pricing may be seen as a way of dealing  
52 with windfalls of Sydney Water, but, again, to me  
53 that just demonstrates that your argument about  
54 price really can't be substantiated. It  
55 demonstrates a failure of the argument. In a sense  
56 you're going to rely on step pricing to take that  
57 money, that windfall, off to somewhere else.  
58

1 It doesn't mean we're not necessarily in favour  
2 of step pricing. In our written submission, PIAC  
3 said that we'd be happy to participate in  
4 discussions about that. But, again, is there enough  
5 detail that has been put up at this stage, and would  
6 in fact the better option be to have a debate in the  
7 next couple of years, up to 2005? That actually  
8 might be the preferable way to go.

9  
10 I will conclude finally on block tariffs.  
11 We're a little sceptical about block tariffs.  
12 Again, from our perspective, you still have the  
13 exact same problem about elasticity of demand. Are  
14 block tariffs going to work?

15  
16 There are equity issues that arise. I was  
17 particularly interested in Tom's suggestion that he  
18 made earlier about the possibility that it actually  
19 might reduce prices in the first sort of block and  
20 then put them up significantly in the second block.  
21 That would actually match up more closely with the  
22 way block tariffs are used in other parts of the  
23 world, but then again those block tariffs are  
24 designed that way, not for environmental reasons,  
25 but equity reasons.

26  
27 It all comes down to the design of the scheme  
28 and we certainly would want to echo the concerns as  
29 to whether or not CSOs and rebates, and so forth,  
30 really will be the answer in any sort of social  
31 policy scheme. There is always that problem of  
32 cutoffs and thresholds and people falling between  
33 the cracks.

34  
35 We're not opposed implacably. It's not an  
36 issue of principle for us, our concern about block  
37 tariffs, it's an issue about the design. We'd very  
38 much appreciate it if the proponents, those solidly  
39 behind the idea of block tariffs, could come up with  
40 a model or scheme. That would enable PIAC and the  
41 community more broadly to actually get into the  
42 discussion about what it is we're actually talking  
43 about, where we are going to pitch the actual prices  
44 and the steps between blocks. Thank you.

45  
46 MR COX: Thank you very much. You've covered in your  
47 remarks a number of the issues I would otherwise  
48 have raised, so it leaves me with one question that  
49 I would like to ask you. There has been a lot of  
50 commentary this morning and this afternoon that  
51 really water prices need to rise, perhaps in the  
52 next couple of years, over the longer term, both to  
53 fund a larger range of activities - for example,  
54 things like catchment management and demand  
55 management - and also because water sales would be  
56 lower, there'd be less revenue for the organisations  
57 to recover the cost from, hence prices need to rise  
58 over the longer term. I'm interested in your

1 comments on that possible scenario.

2  
3 MR WELLSMORE: In terms of things like activities around  
4 the catchments, for example, again, I think it's  
5 reasonable to make the argument that the community  
6 is at some point prepared to fund a reasonably  
7 planned and transparent program, which I suppose  
8 really is to say, "Look, let's see the plans, let's  
9 see what it is we're going to pay for."

10  
11 Having said that, a number of people in this  
12 room would have a recollection of the antipathy,  
13 from some sections of the community anyway, about  
14 the environmental levy introduced years ago. I  
15 suppose you would need to see that as somewhat  
16 countering my sort of general view that people will  
17 pay for something if it's going to provide something  
18 they actually want. For example, catchment or more  
19 demand management, that might fall into that  
20 category.

21  
22 The idea that prices need to rise because  
23 per capita consumption is falling is a difficult  
24 one, though, I think. You should pay more because  
25 you're using less of something, that's always going  
26 to be a very, very difficult message to sell to the  
27 community. It has to be counterproductive. If  
28 you're going to say to the community, "We want you  
29 to use less and your prices will go up in 10 years  
30 time", I know how long I'm going to be in the shower  
31 tonight.

32  
33 MS CIFUENTES: What shower?

34  
35 MR WELLSMORE: Yes. I think really at the end of the  
36 day that's probably an issue which is for government  
37 more broadly than just the tribunal in terms of  
38 immediate pricing determinations, I would think. If  
39 we get to that stage where the longer-term viability  
40 of Sydney Water, for example, in this case, is being  
41 undermined, then because of falling per capita  
42 consumption, but, you know, government and the  
43 community can say, "That's good, we want falling per  
44 capita consumption", then it seems to me it's a  
45 larger public policy issue about, "Okay, what do we  
46 then do about longer-term issues about urban  
47 planning, and so forth? Is there in fact some other  
48 way in which Sydney Water is kept away from a  
49 parlous financial state, something done about  
50 dividends?", or what have you. It seems that's a  
51 bigger issue than you can deal with in a pricing  
52 determination, certainly this far out from that kind  
53 of scenario.

54  
55 I don't think we're talking about Sydney Water  
56 being in that sort of difficult position for the  
57 next few years anyway, but, yes, I'd have to say I  
58 don't think anyone will be able to sell that message



1 that using less, they're going to pay more. I don't  
2 think that will work at all. There you go. That  
3 unfortunately is the outcome, I guess, of the end  
4 game, when we've had all these years of user pays,  
5 user pays, user pays. "I'm using less, I've got to  
6 pay less." As a community, I think we've made our  
7 bed in that regard.

8  
9 MR COX: Thank you. Cristine?

10  
11 MS CIFUENTES: Thank you. Jim, I'm quite interested in  
12 PIAC's statement or recognition that there are  
13 limits to the efficiencies and cost reductions that  
14 can be achieved. I must say I was a little  
15 surprised by that, insofar as it implies a degree of  
16 acceptance with an upward trend in prices. Is that  
17 correct?

18  
19 MR WELLSMORE: It's hard to give a short answer, a short  
20 yes or no to that, as much as I'd like to, and save  
21 everyone's time. I suppose, broadly speaking, yes,  
22 that's probably broadly true. If the case is there  
23 that catchment or, you know, major parts of the  
24 supply network of Sydney Water, or whatever it is,  
25 need to be replaced because the infrastructure is  
26 100 years old, or whatever, it will be very hard to  
27 come up before the tribunal and say, "Well,  
28 absolutely no way can prices go up. That's an  
29 outrage. We couldn't be in that position."

30  
31 I suppose part of our view is formed by the  
32 fact we're not very informed, we're not in a  
33 position to have a detailed understanding of what  
34 goes on at Sydney Water as a business. There's not  
35 that kind of transparency for the community as a  
36 whole. But we're also very mindful of, as I said,  
37 the lean and mean scenario. At the end of the day,  
38 reliability has to be a major consideration, and  
39 we're seeing that in other industries. Electricity  
40 in other states particularly is an area where the  
41 more efficient the industry becomes, the more  
42 reliability becomes a difficult proposition.

43  
44 We'd rather that there was a reliable, quality  
45 supply of water going forward, rather than trying to  
46 squeeze the last 0.1 of a cent of savings out of  
47 somewhere or other, particularly because, in the  
48 case of Sydney Water, in recent times those savings  
49 to an extent have been an extracted expense from  
50 their employees, for example. We don't want to be  
51 up here saying, "Let's screw the workers because my  
52 water bill will go down by 5 cents." Equally,  
53 that's an untenable position for us to be in.

54  
55 MS CIFUENTES: You would accept some upward trend in  
56 prices because of cost pressures, but how do you  
57 then reconcile that with a view that prices should  
58 rise as a demand management strategy? Is one more

1 desirable, from a societal point of view, or does it  
2 matter - prices go up, you get demand management,  
3 throw it in as a bonus?

4  
5 MR WELLSMORE: We've actually said this last time in the  
6 last determination, if Sydney Water came to the  
7 table with a significant proposal that said, "We can  
8 achieve X amount of demand management, it will cost  
9 Y amount of dollars", it's quite possible that the  
10 community, and certainly PIAC, would be willing to  
11 support that. The idea, though, that says, "We'll  
12 whack up the price and see what happens about demand  
13 management", that's a different scenario altogether.  
14 So in terms of the whole area of costs that Sydney  
15 Water has, we're happy the tribunal is there and  
16 we're happy to have the tribunal doing its job of  
17 putting some pressure and the onus on Sydney Water  
18 to justify those costs are proven costs and  
19 verifiable costs. We're not going to say, "Bring  
20 the invoice and we'll just pay it out, that's not a  
21 problem."

22  
23 Equally, yes, if they're able to kind of say,  
24 "Look, we're going to do blah blah blah and it's  
25 going to cost a certain amount of money", then we  
26 can talk to you and people can come to some position  
27 about whether that's a reasonable thing or not. To  
28 us that's quite a separate issue from saying, "We'll  
29 just put the price up. We have no idea what you'll  
30 get back from that." We're trying to be pragmatic,  
31 I guess. As I say, you recognise that at the end of  
32 the day there has to be some point at which the  
33 return you get from efficiencies is outweighed by  
34 the cost that you get.

35  
36 MS CIFUENTES: Do you have a view on step pricing and  
37 the flowthrough of any increase in price to retail  
38 customers? It's not something that has been focused  
39 on at all today. I accept that it will be a major  
40 issue for the 2005 review. Do you have any  
41 preliminary views, again considering that demand  
42 management seems to be the objective, and how do you  
43 get that signal back to the users, as opposed to  
44 Sydney city water?

45  
46 MR WELLSMORE: Well, from our perspective, step pricing  
47 is all about putting the focus for demand management  
48 on Sydney Water, not on customers, so it shouldn't  
49 flow through. There shouldn't be any ramifications  
50 for end user prices arising out of what happens with  
51 step pricing. That's entirely an issue about how  
52 Sydney Water deals with its obligations, it seems to  
53 me, it seems to PIAC.

54  
55 Step pricing as an issue in itself, we're not  
56 opposed to that. There's still quite a bit of  
57 detail, it seems to me, though, to come forward  
58 about how it would actually work. If Sydney Water

1 is going to be given step pricing and pay penalties,  
2 where's that money going to go to, what will it be  
3 used for?

4  
5 Again, we can sort of say demand management,  
6 but what specifically, what exactly? Obviously, at  
7 the end of the day, the point is you're trying to  
8 encourage Sydney Water - I think Lee was saying this  
9 before - to not pay that penalty anyway. In that  
10 sense, there are still more details. It's not  
11 likely we're going to oppose step pricing, but we'd  
12 like to know a bit more about how it will actually  
13 work.

14  
15 MS CIFUENTES: In the interests of time, I won't  
16 actually ask for an answer now, but a statement in  
17 your submission caught my eye, and that was a  
18 comment about the recoverable amount test proposed  
19 by Hunter Water and your statement about the  
20 compliance with an accounting construct shouldn't be  
21 the overriding objective. I won't ask for an answer  
22 now because we are running late, but that's  
23 something that we might take up, because it came up  
24 earlier this morning about compliance with the  
25 county standards or constructs, whichever way you  
26 want to look at it, and the impact on prices. I'd  
27 be interested to hear comments on that some other  
28 time.

29  
30 MR WELLSMORE: Would you like us to try to illuminate on  
31 that in writing.

32  
33 MS CIFUENTES: Yes, some work is being done, that would  
34 be useful, yes.

35  
36 MR WELLSMORE: Okay, terrific.

37  
38 MR COX: Thank you very much.

39  
40 MR WELLSMORE: Thank you.

41  
42  
43  
44  
45  
46  
47  
48  
49  
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51  
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54  
55  
56  
57  
58

1 STORMWATER INDUSTRY ASSOCIATION (NSW)

2  
3 MR COX: The next presenter is from the Stormwater  
4 Industry Association. Would you come forward and  
5 identify yourself, please? Could you please  
6 introduce yourself for the record and then proceed.

7  
8 MR WOOD: My name is John Wood. I am the Chief  
9 Executive Officer of the Stormwater Industry  
10 Association. Firstly, we would like to thank this  
11 inquiry for allowing us to give a brief  
12 presentation. You've received our written  
13 presentation. There are a few items I'd like to  
14 pick up and a few elements that are not in our  
15 written submission. I would also like to say that  
16 our immediate past chairman, Dr Peter Coombes, was  
17 intending to be here today but got caught with other  
18 commitments in Queensland, so I will provide that  
19 information.

20  
21 As an association we look at water management  
22 as a total water cycle management strategy.  
23 Divisionalising it and taking the various components  
24 out without looking at it as a total picture I think  
25 is the wrong way to go about it. It is not a  
26 criticism saying that that's necessarily how you're  
27 dealing with it, but as far as we're concerned that  
28 is the only way it should be looked at.

29  
30 The information I think you have before you,  
31 which you have to try and look at, in terms of  
32 pricing is based on a lot of information of course  
33 provided by Sydney Water and the other water  
34 authorities and what concerns us is that some of the  
35 information we believe is flawed, it hasn't been put  
36 through more rigorous and careful scrutiny, and I'd  
37 just like to give one simple example of that because  
38 it is fairly significant.

39  
40 A number of people are aware that there was a  
41 study which Sydney Water prepared and looked at of  
42 205 houses in Mt Victoria - that was the case study  
43 that was done - and they fitted a whole range of  
44 demand management strategies: full flush toilets,  
45 AAA showerheads, toilet flushing arresters and tap  
46 regulators.

47  
48 Before they did that work they did an analysis  
49 of what the cost savings may be and that is  
50 information that you've probably already seen but  
51 the Sydney Water calculations suggested that they  
52 should receive 34.6 per cent in savings of water  
53 used for those 205 houses.

54  
55 In actual fact, when they looked at the real  
56 reduction in water for those 205 houses, the  
57 reduction in potable water was not 34 per cent but  
58 13 per cent. That is overstating a number of

1 strategies by about 2.6 per cent, a very large gap  
2 in the way that they should be looking at it.  
3  
4 What concerns us, therefore, is that a lot of  
5 the premises that you have been trying to look at in  
6 terms of demand management are probably not up to  
7 scratch. We have been through many of the papers  
8 and information that has come out of Sydney Water in  
9 this regard and if we look at their demand  
10 management for the period 1999 to 2002, fitting  
11 those particular elements, the various demand  
12 management strategies I just mentioned, Sydney Water  
13 estimated that they would have a saving of  
14 4.51 megalitres, but in real terms we believe that  
15 probably was only about 1.78 gegalitres.  
16  
17 I don't want to go on about that any further  
18 but we're concerned that this means that a number of  
19 the strategies that Sydney Water put in place, I  
20 think, haven't been working properly.  
21  
22 We have heard and I'm sure you heard a lot  
23 earlier today, prior to me being here, about stepped  
24 tariff pricing. In our submissions we suggested  
25 that is a sensible approach. Of course, there would  
26 need to be careful consideration and models but  
27 obviously it tends to come down, with a lot of these  
28 things, to the political will of government.  
29  
30 What we suggested is that there could be a  
31 reduction in potable water for let's say the target,  
32 which is the demand target that has been set of  
33 around about 329 litres per person per day. In  
34 other words, if you were using that amount of water  
35 or less, then your actual water rates go down and  
36 your tariff rate goes down: in other words, you  
37 wouldn't necessarily be disadvantaged.  
38  
39 There is a social implication with respect to  
40 the disadvantage to the community and in that sense  
41 I think politically it would be palatable, but  
42 equally social ly I think it would be a just  
43 approach.  
44  
45 I understand that this inquiry anyway is really  
46 only looking at the price and that is quite  
47 restrictive from our point of view because the  
48 issues are a lot broader than that and you can only  
49 make recommendations to government on how you should  
50 fine-tweak that price or adjust that price or the  
51 mechanisms that may manage that price.  
52  
53 We believe that the price should be controlled  
54 through the bulk price of water because it is  
55 through the Sydney Catchment Authority that some of  
56 the funding can go back to catchment repair. The  
57 difficulty that we've got is that we're damming our  
58 rivers and taking out the natural environmental

1 flows. We've got to pay for that one way or  
2 another. The water either has to go back in or  
3 we've got to pay for other remedial actions.  
4  
5 If the bulk price of water takes account of  
6 those considerations then obviously the catchment  
7 authority has further funds to try and manage those  
8 issues. In doing that we feel that Sydney Water is  
9 purely a water retailer and water should be  
10 conducted like private enterprise. You can buy  
11 water from the catchment authority. You can or  
12 should have a choice of who you wish to buy it from.  
13  
14 We have all done that. The government has done  
15 that with the energy sector and we believe it should  
16 also occur with the water sector. The real  
17 fundamental behind allowing private enterprise to  
18 come into water sales - retailing - is that it opens  
19 up a whole market for recycled water.  
20  
21 Private enterprise should be able to purchase  
22 grey water back from Sydney Water and that may have  
23 to also be considered by this inquiry because  
24 obviously it won't work if Sydney Water jack up the  
25 price of their grey water to the point where private  
26 enterprise wouldn't be able to buy it and clean it  
27 and then onsell it. You won't get a complete  
28 analysis and an understanding of the damage of  
29 pollution and polluted water and discharges to  
30 oceans and rivers and so on with the sewerage that  
31 needs to be reduced and of course to reduce it - it  
32 is a valuable resource - it can be cleaned and sold.  
33  
34 At this point in time we're aware, of course,  
35 that Sydney Water is trying to move I think fairly  
36 rapidly to using recycled water but they want to do  
37 it themselves. Why should they, let's say, want to  
38 corner that market? It costs the community money to  
39 clean up that water and it should be available to  
40 the community to look at other alternatives and  
41 other mechanisms to clean that water up. The only  
42 way you'll do that is to deregulate it.  
43  
44 We believe we've got to remove the monopoly  
45 status of Sydney Water and I think that's  
46 fundamental. We recognise that there would have to  
47 be some mechanisms in place to ensure that  
48 organisations who were onselling water were doing it  
49 in the proper way and that may be managed possibly  
50 by existing consumer departments, the Department of  
51 Fair Trading and so on - they already exist - and  
52 they could keep a proper control from the  
53 community's point of view.  
54  
55 We also feel that the natural stormwater that  
56 is falling on our roofs - the rainwater that is  
57 falling on our roofs - should be retained and the  
58 only way that we can get a proper value and reuse

1 out of that is to make it more accessible. We  
2 recognise the government opened up the use of  
3 rainwater tanks without requiring development  
4 approval and so on.  
5  
6 However, it goes deeper than that because in  
7 actual fact there are now very stringent regulations  
8 in terms of how you can connect those water tanks.  
9 At the current time it is very difficult to be able  
10 to connect a rainwater tank to the existing house  
11 reticulation system.  
12  
13 The requirements are such that it is really not  
14 going to, at this point of time, make it a  
15 proposition for developers or even for home owners  
16 generally, unless they're only using the water to  
17 water their garden, to interconnect with the  
18 reticulation system of the house.  
19  
20 I believe there has to be a change in these  
21 types of regulations. One of the concerns that we  
22 have is that there is a degree of conflict of  
23 interest in the way these regulations are framed and  
24 Sydney Water are a major contributor to how these  
25 regulations are framed. We recognise they must have  
26 inputs but I don't believe they should have control  
27 of inputs. In effect, they can control how other  
28 classes of water are used and that's an issue.  
29  
30 I will just finish by mentioning one other  
31 area. I think that the necessary means of getting  
32 funding for catchment repair can definitely come  
33 from the Sydney Catchment Authority. If the  
34 catchment authority is able to increase the price of  
35 bulk water, those funds can be directed to proper  
36 catchment repair.  
37  
38 We have heard that these funds could possibly  
39 produce a windfall and that windfall might have to  
40 go back to the government as dividends. I don't  
41 believe that that should obviously be allowed to  
42 occur. If there's going to be an increase in the  
43 price of water it must be directed in a certain  
44 manner and I think that can be a mechanism to  
45 improve catchment repair.  
46  
47 MR COX: Thank you very much. I was interested in your  
48 suggestion that some of Sydney Water's demand  
49 management activities were not as successful as they  
50 had suggested they were. What is the basis for that  
51 claim?  
52  
53 MR WOOD: I gave you an example. These are figures that  
54 have come from Sydney Water themselves.  
55  
56 MR COX: What is the basis for your scepticism?  
57  
58 MR WOOD: I suppose from our point of view we've had

1 long and detailed discussions with Sydney Water  
2 about their demand management strategies, mainly  
3 because we have been keen to see the introduction of  
4 rainwater tanks as one of those mechanisms and we  
5 felt for a long time that we haven't been getting  
6 through to them and so we started to dig deeper and  
7 look at our own strategies to see how effective  
8 they've been.  
9  
10 The example that I gave is one example, there  
11 are others, but it is an example of how they claim  
12 theoretical reductions but the realities fall far  
13 short.  
14  
15 MR COX: You've done an evaluation of their programs?  
16  
17 MR WOOD: We haven't. All I've done is pick up an  
18 example here. Certainly, I know Dr Coombes has been  
19 working on an evaluation, but I'm not trying to  
20 present his work.  
21  
22 MR COX: If we get in touch with him he'll take the  
23 issue further?  
24  
25 MR WOOD: Yes.  
26  
27 MR COX: You suggest that not only Sydney Water should  
28 be involved in recycled water activities. What are  
29 the main impediments that stop others getting  
30 involved at the moment? Are they legislative  
31 impediments?  
32  
33 MR WOOD: I assume there are two. There could be some  
34 legislative fine tuning that may need to take place,  
35 although I don't believe there is. I think it is  
36 just purely that obviously if you're going to try  
37 and buy sewerage from Sydney Water you've got to go  
38 in and negotiate some sort of arrangement. I think  
39 at the moment they'll turn around and say, "Well  
40 look, we'll do it for you. We're very happy to  
41 cooperate, but as long as we're doing it".  
42  
43 MR COX: That sort of attitude by Sydney Water is the  
44 problem, is it?  
45  
46 MR WOOD: There appears to be an attitude problem. We  
47 haven't gone in there and asked them if we could buy  
48 some sewerage.  
49  
50 MR COX: That is an interesting thought. The final  
51 question from me is this: you suggest more needs to  
52 be spent on catchment rectification.  
53  
54 MR WOOD: Yes.  
55  
56 MR COX: The catchment authority said this morning - I  
57 don't know whether you were here --  
58

1 MR WOOD: No.  
2  
3 MR COX: -- that they may need more time to plan what  
4 the most effective activity should be; do you accept  
5 this?  
6  
7 MR WOOD: It concerns me that they're asking for more  
8 time. They've been there and they've been operating  
9 and in actual fact our association in a small way  
10 has been involved in assisting in some of the  
11 programs that they've been looking at. There is a  
12 lot of smart and good expertise out there and I  
13 don't honestly believe they should be claiming they  
14 need more time. Information relating to the  
15 problems and a lot of the solutions are readily  
16 available.  
17  
18 MR COX: Thank you.  
19  
20 MS CIFUENTES: Your proposal for major structural water  
21 reform was quite interesting and you did mention  
22 that there has been structural reform in other  
23 industries, electricity being one case, and you  
24 proposed seven major considerations as part of this  
25 water reform process. It strikes me though that  
26 that is quite a radical proposal.  
27  
28 Would you accept that perhaps we haven't  
29 explored sufficiently all other options before  
30 embarking on, for example - for those who may not  
31 have seen this - removal of the protective monopoly  
32 status of the water utilities? Permitting private  
33 enterprise to trade in all areas of water, it seems  
34 to me that is quite a change in government policy,  
35 as opposed to a mid-term review of it.  
36  
37 MR WOOD: It would be; certainly it is a major reform.  
38 Our association has been involved with obviously  
39 inquiries at the Federal level as well as the State  
40 level and we believe that until we start to look at  
41 the water industry, we're not going to go a long  
42 way. I recognise your hands are tied here in terms  
43 of trying to control water pricing.  
44  
45 You must take some account of the various  
46 factors that are available out there and of course  
47 removing the monopoly status of the utilities is one  
48 genuine mechanism that you have as a pricing  
49 authority to consider.  
50  
51 It may or may not necessarily be politically  
52 palatable - I don't know. We haven't tested it -  
53 but it is something I believe this inquiry could  
54 consider.  
55  
56 MS CIFUENTES: On a perhaps less radical note, we've had  
57 a proposal before us that at least with stormwater  
58 pricing we should move away from along the lines of

1 a fixed charge and introduce a two-part system with  
2 a small fixed charge and a volumetric price. Do you  
3 have any views on that?  
4  
5 MR WOOD: Yes. In terms of stormwater, I suppose once  
6 again we believe there should be a radical  
7 reassessment of how stormwater charges are managed.  
8 There are a whole raft of examples. I would just  
9 like to focus for a minute on say the development  
10 industry and that's whether you're a greenfield  
11 developer or a brownfield developer.  
12  
13 At the present time a developer is really being  
14 hit over the head considerably by trying to  
15 implement certain strategies to manage stormwater  
16 but doesn't get any real relief or offsets from  
17 councils on how he may be managing that water in an  
18 environmentally sensitive or sensible manner.  
19  
20 We believe that we need to restructure how we  
21 price stormwater. We say stormwater is a huge  
22 asset. At the moment it is being used as a  
23 negative. Until we bring the stormwater reuse  
24 element within our total water cycle, we're not  
25 going to get those benefits. There should be  
26 offsets.  
27  
28 If a developer is being racked for discharges  
29 of his stormwater to pay for works, charges and  
30 section 94 funds and so on and there's a range of  
31 ways that he can be billed for these things, he  
32 should be given offsets if he manages it in a proper  
33 way. In the Sydney area you could probably manage  
34 up to about 75 per cent of all the stormwater that  
35 falls on your allotment in a careful way.  
36  
37 If you start to reduce the amount of stormwater  
38 discharging into the public road and drainage  
39 systems, this has a considerable difference in how  
40 we have to pay for it, how we have to manage it,  
41 maintain it and so on. Also, of course, it has huge  
42 environmental impacts because it reduces the amount  
43 of pollution. If you reduce the amount of water,  
44 you reduce the pollution. Once again, we say you  
45 need a restructuring of the pricing.  
46  
47 MS CIFUENTES: Thank you.  
48  
49 MR COX: Thank you very much.  
50  
51  
52  
53  
54  
55  
56  
57  
58

3 MR COX: We now move to the Urban Development Institute  
4 of Australia.

6 MR PRICE: I'm Peter Price and this is Laurie Rose,  
7 executive of the Urban Development Institute. He'll  
8 field policy questions you have. You've seen our  
9 submission. The Urban Development Institute is a  
10 body that represents members of the housing industry  
11 in New South Wales, principally in the metropolitan  
12 area. I've been asked to prepare this submission  
13 for them. I'm a member of the Urban Development  
14 Institute as well.

16 The opportunity to put a submission before  
17 IPART as a representative body of the design,  
18 construction and building industry, with direct  
19 involvement in the provision of infrastructure, is  
20 one that we couldn't miss, obviously.

22 We are concerned about the overall reduction in  
23 costs which have effects on both annual and periodic  
24 charges, such as development charges, which is the  
25 one we mostly have an interest in. The key issues  
26 we have, for the purpose of this hearing, are peak  
27 wet weather flows, demand management, performance  
28 comparisons and also capital costs and return on  
29 investment. They're the issues we wish to address.

31 Peak wet weather flows is a matter we have a  
32 long-standing interest in. This is the flows that  
33 occur during peak storms, and this occurs because of  
34 infiltration from various sources. It has been a  
35 bone of contention for several years. The situation  
36 has changed to some degree. The design standards in  
37 regional New South Wales have a factor of about  
38 eight times the average dry weather flow. The  
39 residential component of the design in the Sydney  
40 Water area is about 4, so it's a considerable  
41 improvement.

43 But the advice of senior designers - I've  
44 spoken to a number of them in major engineering  
45 firms - is there's still considerable room for  
46 improvement. This is relevant from the point of  
47 view of the cost of capital and also principally in  
48 the provision of public stations and treatment  
49 works.

51 You can imagine that if the average flow is the  
52 one we need to manage and not the peak, there's very  
53 substantial cost. We've also been concerned about  
54 the fact that there are things happening in the  
55 design of systems that are ameliorating the  
56 management of stormwater. One of these - not in all  
57 areas, but in many areas - is that EPA are insisting  
58 on the provision of storage for each pumping

1 station. This storage is designed specifically in  
2 the event of failure in that pumping station, so  
3 that it will store the flows for a period of time.

5 That storage, in our view, could be used also  
6 to ameliorate the design of the system because  
7 whether or not it is a breakdown or whether or not  
8 it's a storm in the same situation we could in fact  
9 change the design parameters for that pumping  
10 station to take advantage of that storage. That's  
11 just one small example.

13 The problem is really the extra costs in  
14 pumping stations and STPs, as I said. That has been  
15 a hidden cost in the design. It's been there for a  
16 long time. People don't think about it too much.  
17 It's just happening.

19 One of the concerns that many developers have  
20 is they're providing a state with brand-new systems  
21 which have very effective and efficiently designed  
22 systems, and principally the pipes, of course, are  
23 sealed to a much higher standard than they used to  
24 be. We're using plastic pipes, for instance.  
25 They're using rubber rings and root retardant  
26 chemicals, and those sorts of things. These systems  
27 are pressure tested prior to acceptance. So we're  
28 providing systems that will operate to a much higher  
29 standard than in the existing situation. The  
30 difficulty for us is, of course, we're linking to  
31 the inefficient systems and we're paying charges  
32 based on those inefficient systems.

34 Despite the requirement of the guidelines, if  
35 there's an existing pumping station in an existing  
36 area, whatever the design parameters for that  
37 pumping station were at the design of its  
38 instruction are ignored and the cost that we pay is  
39 the current value of that pumping station. So we  
40 have a great deal of interest in seeing a  
41 substantial improvement in the design and  
42 construction - sorry, not an improvement in their  
43 design standard, because that standard is quite high  
44 at the moment, but improvement in the existing  
45 systems.

47 One of the solutions we believe is that we need  
48 to look more closely at peak weather flows. We  
49 believe there needs to be far more scientific  
50 investigation of wet weather flows. It's not an  
51 area where we're out there spending big amounts of  
52 capital money, like we have with the Northside  
53 storage system. That's a very tangible illustration  
54 of the costs that we incur. We need to actually  
55 examine how we can best manage wet weather flows,  
56 and we're not talking about overflows here, we're  
57 talking about the flows that are occurring within  
58 the system. Overflows are a separate issue.

1  
2 So we'd like to see a scientific analysis and  
3 we'd like to see a consultative committee involved  
4 in the industry to look at these standards, because  
5 it is the single greatest cost burden that the  
6 design system carries.  
7  
8 If you go to demand management, we note that  
9 the Hornsby Council suggested that this review  
10 should have as a major goal demand management of  
11 potable water. We have submitted concerns about the  
12 demand management because it is something again that  
13 may help ameliorate the cost not only to annual  
14 charges but also to developer charges.  
15  
16 We note there's been significant financial  
17 windfall gains to Sydney Water Corporation over the  
18 last period and there doesn't seem to be any relief  
19 likely from further capital expenses because of  
20 that, and, of course, there will now be the  
21 imposition of summer restrictions on users.  
22  
23 One of the things that I noted from the  
24 presentation by Sydney Water this morning which  
25 intrigued me, quite frankly, is that it was felt  
26 that there weren't a lot of opportunities to improve  
27 demand management. We note that of course the  
28 demand management strategy was introduced in 1995.  
29 To our knowledge - in fact, it was admitted - there  
30 is in fact no information as to what effects there  
31 have been on demand over time and why the demand has  
32 fluctuated like it has. We just don't know. I  
33 believe Sydney Water, after having a demand  
34 management strategy that has now been around for  
35 seven years, really needs to know the means to  
36 manage their demand management strategies.  
37  
38 Mr Cox asked the question this morning about  
39 conflict of interest. I thought it rather unusual  
40 that Sydney Water regarded the reduction in demand  
41 caused by drought as a risk issue. Of course,  
42 that's exactly what demand management is seeking to  
43 do. What you're asking to do is to reduce demand,  
44 and what they're most concerned about is their  
45 revenues. So they see reduced demand as a risk  
46 issue, not as a management issue of water supply.  
47 The question is have they done everything possible?  
48 We don't believe so.  
49  
50 The matter was discussed by IPART in their  
51 issues paper. While we have some reservations about  
52 the suggestion that pricing alone doesn't work, we  
53 think that probably it is one of the factors. There  
54 are numerous factors that can be taken into account.  
55  
56 From brief discussions I've had with former  
57 officers of the Hunter Water Corporation, clearly  
58 they introduced demand management strategies very

1 effectively. From my association with Hunter Water,  
2 I think it's because they have a closer relationship  
3 with their community; I think that's the key to it.  
4 I think they took the community with them when they  
5 did it.  
6  
7 I think there's an opportunity now to do that  
8 again. It seems to me that once the drought is  
9 over, there's an ideal opportunity to say to people,  
10 "Look, we're going to reduce the charges on the  
11 basis that we, for instance, substantially reduce  
12 the access fee and maintain the user rate". I think  
13 with public relations, with a good public relations  
14 exercise, there's an opportunity to look at trying  
15 to hold demand.  
16  
17 Our difficulty is that in neither the Sydney  
18 Catchment Authority nor the Sydney Water Corporation  
19 submissions did we see any justification for the  
20 projection of substantial reduction in demand. It's  
21 there. It shouldn't be there because it exceeds  
22 their projection and the idea that somehow magically  
23 it's going to reduce substantially seems to me to be  
24 fairly fanciful.  
25  
26 The matter has not been addressed and there  
27 needs to be a fairly drastic approach taken in order  
28 to achieve demand management. I'm not too sure what  
29 the answer is, but having looked at the figures that  
30 were provided by IPART, it's correct that on the  
31 current pricing structure, it's not as sensitive as  
32 it needs to be.  
33  
34 You can change it in all sorts of ways, and the  
35 net number of dollars doesn't amount to a hill of  
36 beans from the point of view of the average  
37 consumer. It seems to me therefore it has to be  
38 fairly dramatic, and one of those ways might be a  
39 substantial reduction in the access charge.  
40 Secondly, it would need some sort of support  
41 mechanism, a much greater effort to interact with  
42 the community to use water saving devices. Twelve  
43 per cent after seven years is pretty puny, really.  
44  
45 The number of businesses that have taken this  
46 on I think was 60, 60 in Sydney. It's not even a  
47 number that you can consider. There is no doubt  
48 that Australians are receptive to environmental  
49 initiatives, and we think that probably more can be  
50 done. Therefore, demand management is as important  
51 as the problem of peak wet weather flows. It has a  
52 direct and substantial impact upon the cost of  
53 systems, including maintenance.  
54  
55 There are two other things we'd like to make an  
56 observation about. This morning, if I interpreted  
57 it correctly, it seemed to be suggested that the  
58 only way that Sydney Water had managed to in fact

1 contain their operational costs was because it is to  
2 some extent growth driven. I think that was a  
3 correct statement. One of the difficulties about  
4 that, of course, is that the argument put on  
5 developer charges is exactly the opposite. We are  
6 told when we complain about the low allowance that's  
7 made for the net revenue offset for the asset charge  
8 it's more expensive in fact to service new areas.  
9 Now, which one is it? We'd like to know.

10  
11 This is the sort of issue we're dealing with  
12 all the time and it really has strengthened our  
13 view, which I'll get on to more later, that the  
14 whole question of how you deal with fees and charges  
15 needs to be an integrated approach because there are  
16 huge overlaps between the issues we're dealing with  
17 on the developer charge side and the issues we're  
18 dealing with on the annual charge side. There are a  
19 whole lot of reasons for that.

20  
21 One thing that came out of the report was there  
22 was a \$20 million surplus attributed to new users.  
23 Our question is if it's attributable to new users,  
24 and we're supposed to have made an allowance for  
25 those sorts of incomes in determining development  
26 charges, how is it that \$20 million is going to be  
27 passed back to users or going to be used in some way  
28 that benefits the new users?

29  
30 The next item is performance comparisons. As  
31 much as I've had altercations with DLWC about their  
32 interpretation, I have good things to say about  
33 things they do, and I think these are areas that  
34 might be considered for Sydney Water. You couldn't  
35 get this once upon a time. It's now available.  
36 It's called "Performance Comparisons for New South  
37 Wales". This is every single council or every  
38 single water authority in New South Wales outside  
39 the metropolitan area, and they are very  
40 comprehensive water comparisons.

41  
42 One of the great difficulties in dealing with  
43 submissions from the water authorities is you really  
44 don't have these benchmarks to test them. We don't  
45 know. We don't have these sorts of details coming  
46 out of any reports from Sydney Water.

47  
48 Quite frankly, when I read the latest report,  
49 it was like a jigsaw, where some of the major pieces  
50 have been taken out. This is a standard practice,  
51 it seems, with many government authorities. You  
52 cannot compile a set of comprehensive sets of data  
53 to assess financial information, to assess demand,  
54 et cetera, because different factors are used for  
55 different parts of the system.

56  
57 The factors that were provided in Sydney  
58 Water's report about revenue were different to the

1 factors required about expenditure. It made it  
2 extremely difficult to come to any proper  
3 conclusion. Anyway, we think that performance  
4 comparisons is one approach.

5  
6 Regarding the second approach, as you know, we  
7 have been concerned about MEERA. MEERA is raised in  
8 this document as a reference amount by way of the  
9 value of the Sydney Water assets. We have some  
10 substantial problems with MEERA, and these are  
11 cropping up all the time.

12  
13 I have a thing called the New South Wales  
14 reference rates. These have been compiled over many  
15 years from contract information for works that  
16 they've undertaken throughout New South Wales and  
17 they provide fairly comprehensive information about  
18 the costs of various kinds of assets, so much per  
19 metre at a various depth for various kinds of pipes,  
20 so much for various capacity pumping stations, and a  
21 whole raft of things. Clearly, they can't get into  
22 the major assets, which are generally where the  
23 sewage treatment plant is included, but you'd have  
24 to have some understanding of the design. They put  
25 together the various components. It's again a very  
26 useful document.

27  
28 One of the problems dealing with government is  
29 for the private sector to get information. Those  
30 two documents provide substantial insight into costs  
31 in regional New South Wales. We don't have this  
32 sort of information available to us in the  
33 metropolitan area.

34  
35 It seems to me that in carrying out assessments  
36 like this, in assessments that have been carried out  
37 by Treasury of capital expenditure, this sort of  
38 thing, I don't know what the hell they're using to  
39 make comparisons. It would be quite difficult, it  
40 would seem to me. That sort of information is  
41 useful.

42  
43 In regard to the capital costs and return on  
44 investment, I'm not an economist, but I have  
45 financial management skills, and looking at the  
46 figures that have been provided, one thing I noted  
47 is that the earnings of SCA are 46 per cent of their  
48 revenue, whereas the earnings for Sydney Water are  
49 only 23 per cent. Clearly, there's a substantial  
50 bubble in income and it's been repeated for the last  
51 two years.

52  
53 We also note that there's a \$20 million  
54 reduction in capital expenditure. That capital  
55 expenditure is over the period of the determination.  
56 There seem to be some substantial mismatches there  
57 in whether or not there are opportunities in fact to  
58 reduce the revenue streams. They just seem



1 extremely substantial.

2

3 I noted that the Sydney Catchment Authority  
4 chairman this morning suggested they were  
5 comfortable with the price part. I'd be comfortable  
6 too. It seems to me with monopoly organisations we  
7 have to be aware how to make them uncomfortable.  
8 It's just too loose. It's not tight enough. They  
9 need to sharpen their pencil.

10

11 One of the other things that we're not 100 per cent  
12 sure what to do about, but I wish to raise, is the  
13 question of integrating consideration of developer  
14 charges and annual charges seems to me to be a quite  
15 important next step because you're considering  
16 setting price paths on the basis of the rate of  
17 return on capital assets. In the past few years  
18 since the introduction of developer charges, and  
19 certainly the substantial levels we're now talking  
20 about, we're looking at the development industry  
21 providing full costs of capital of their share of  
22 the works.

23

24 Of course, a simple question is, "Well, if  
25 we're paying for the asset, why are they getting the  
26 return and what assessment is being made when the  
27 capital acquisition program is being considered as  
28 to what part of that is being met by developer  
29 charges and how is it integrated?" There's nothing  
30 in the documents that shows me how consideration is  
31 given to the various sources of income to meet the  
32 capital works program on Sydney Water, and the  
33 amount that's been sought from the industry is  
34 substantial. We have 100 DSPs in metropolitan  
35 areas, and we're talking about a minimum of 20,000  
36 houses per annum, and it goes up from there.

37

38 There's a whole raft of issues. Clarification  
39 is required with our situation: are the pre-1970s  
40 assets, for instance, included in the assessment for  
41 pricing? They're not included in developer charges.  
42 Is the asset, as I said before, a partly paid or  
43 fully paid asset? Which is the one being paid for  
44 by new users? Is there surplus capacity in the  
45 system? How is that surplus being allocated?

46

47 With the developer charges, we are very  
48 concerned in fact about what we call cost shift.  
49 While in fact pre-1970 assets have been excluded  
50 from the calculation, we've subsequently found that  
51 Sydney Water got over that by deleting the users in  
52 the system prior to 1970. They also, without any  
53 consideration of the capacity of the various assets,  
54 insist that all new assets, irrespective of who they  
55 serve, are paid for by new users. These sorts of  
56 issues will crop up at the next opportunity.

57

58 It represents two things: first of all, a need

1 to assess who's paying for what and then what rates  
2 of return prior to the different sectors and,  
3 secondly, whether or not in fact what's occurring is  
4 reasonable.

5

6 We go on about managing the process of pricing.  
7 As I said, that's more about the integration of the  
8 various costs. We've also mentioned about the MEERA  
9 valuations, which have significant problems, in our  
10 view.

11

12 The submissions and the issues paper seem to  
13 suggest looking for some mechanism upon which to  
14 handle a rate of return, whether it's the book  
15 value, whether it's the rolled up value or whether  
16 it's the MEERA value.

17

18 I conclude by saying thank you for the  
19 opportunity to make this submission. From our point  
20 of view, I think Sydney Water has a way to go. We'd  
21 be more than happy to be part of that. We note that  
22 Sydney Water are in fact inviting stakeholders and  
23 UDIA are always willing to participate. I think we  
24 have a range of people with the expertise necessary  
25 to support that sort of process and you will be  
26 hearing more from us about what we see as the  
27 distortions in the developer charge.

28

29 MR COX: Thank you for your submission and for the  
30 warning. I'm not an engineer and I'm not sure I  
31 fully understand the peak flow problem, but it seems  
32 to me that the problem arises because there's an  
33 extremely variable rainfall capacity in Sydney. It  
34 seems to me enormous amounts of water have to be  
35 dealt with in heavy rainfall events. Isn't that the  
36 problem we have --

37

38 MR PRICE: The problem is it shouldn't get into the  
39 sewer. The problem is a sewer system deals  
40 specifically with the discharges from a home. For  
41 instance, it deals with the various kinds of  
42 wastewater. The only way the rainfall can get into  
43 the sewer is if it's broken or if the roof is  
44 connected to the sewer.

45

46 In new subdivisions we have drainage. That's a  
47 limit over that problem. I understand that Sydney  
48 Water have been very diligent in fact in trying to  
49 resolve that problem. They've been doing a lot of  
50 testing around Sydney and there have been  
51 substantial savings because of that.

52

53 MR ROSE: Perhaps I can give you a practical example.  
54 The community Harrington Park has a brand-new  
55 sewerage system, probably no more than six years  
56 old, a brand-new sewage pump station. The sewage  
57 pump station was designed in accordance with Sydney  
58 Water guidelines as the first stage of the

1 development. It was designed to handle the first  
2 400 lots. They currently have 1,400 households  
3 running into that pump station still working just  
4 fine at handling capacity, because the whole of the  
5 system is modern and doesn't leak like the old  
6 systems that do leak.

7  
8 I'm not arguing that most of the systems in  
9 Sydney Water's area do leak and they do need to have  
10 this high capacity. There is no need for that  
11 higher capacity in the design of the modern system.

12  
13 MR COX: Thank you. I hesitate to venture on to the  
14 territory of developer charges. I take the point  
15 that you raised that we need ourselves to be  
16 satisfied there is a consistent relationship between  
17 annual charges and developer charges. I think  
18 that's an important point you make, something we  
19 need to satisfy ourselves on as we move forward in  
20 this process.

21  
22 MR PRICE: There was a good paper submitted by the  
23 Department of Urban Affairs and Planning in December  
24 1994 on this issue which looked at social issues and  
25 where the cost fell, and they were arguing for a  
26 balance, but putting the amount aside, that's not  
27 what I was arguing. I'm merely saying there seem to  
28 be submissions made about the capital cost that  
29 ought to be taken into account, the capital income  
30 streams that are coming from developer charges.

31  
32 MR COX: We need to satisfy ourselves of that  
33 relationship. I think that's an important point.  
34 Moving to the future, one of the arguments we've  
35 heard today is that one of the reasons why we need  
36 to engage in demand management activities is because  
37 of growth systems. Do you think developer charges  
38 have any part to play in controlling growth so that  
39 we can avoid the need to undertake some of this  
40 expansion capacity, or perhaps directed to more  
41 desirable environmental --

42  
43 MR PRICE: No, we've long argued against the concept -  
44 well, sorry, it's a two-part answer to that. If the  
45 land is zoned, it has no effect at all. There has  
46 been a study done by a guy in his studies for a  
47 masters, a guy called Glen Zirnick up at Newcastle.  
48 He came to a very firm conclusion that in terms of  
49 existing areas, developer charges sent no message at  
50 all. There are no price signals. Price signals  
51 ought to be restricted to considerations of  
52 rezoning.

53  
54 If it's not a viable proposition to rezone land  
55 for the reason of servicing, it shouldn't be  
56 rezoned. Unfortunately, over many years now, the  
57 engineers have been left out of the equation.  
58 Planners decided to rezone for all sorts of reasons.

1 All they want to know is is the service available?  
2 You get the servicing authorities placed in very  
3 great difficulty in having to meet the demands of  
4 developers in land being rezoned. So the overall  
5 answer probably is no, there's not much effect.  
6 There's just too much demand. You can see the way  
7 the prices are going it bears no relationship to  
8 costs in some recent.

9  
10 MR COX: Thank you.

11  
12 MS CIFUENTES: Going back to the issue of the design  
13 capacity, as I understand it, what you're saying is  
14 that the current standards are for significantly  
15 higher capacity than what's actually required, and I  
16 understand the implication of that is it adds to the  
17 cost of capital of new assets, et cetera, but from a  
18 practical perspective, what can the tribunal do  
19 about that? Do we have any role whatsoever in the  
20 design standards or --

21  
22 MR PRICE: Not directly, but because it has a bearing on  
23 prices, it seems to me that you ought to have. You  
24 direct these authorities to do many things. The  
25 whole demand management thing is really a design  
26 problem in many respects.

27  
28 MR ROSE: It also affects maintenance costs, the running  
29 costs. You don't want to run a minibus if in fact a  
30 four-door car would do the job.

31  
32 MS CIFUENTES: I understand that, but is the tribunal  
33 appropriately skilled to comment on design issues?

34  
35 MR PRICE: Not directly, no.

36  
37 MS CIFUENTES: I don't think we have too many engineers  
38 on board, probably one or two.

39  
40 MR PRICE: The difficulty is if dealing with water and  
41 sewage issues, whether talking about annual charges,  
42 you need to understand the system at the end of the  
43 day. Somebody in the organisation does.

44  
45 MR ROSE: It gets back to the comments on our public  
46 works. It's much better at investigating the  
47 performance of systems and reporting back. One  
48 would imagine if Sydney Water were reporting to you  
49 that a number of their systems were grossly over  
50 capacity and maintenance costs by their own  
51 observation were more than they needed to be, you  
52 would have something to say about it. I understand  
53 you can't in fact determine what the answer might  
54 be, but one would think you might be asking to come  
55 back next time with something like the review of  
56 their own operating systems that public works have  
57 done.

58

1 MR PRICE: Performance comparisons turn up that very  
2 thing. You may not need to know, but it may be if  
3 performance comparisons were, for instance, divided  
4 up into the DSP areas, you'd then get performance  
5 comparisons between the various DSP areas on the  
6 sorts of factors considered there. You would then  
7 start to find whether there are leakages, overflows,  
8 what the storm flows are like.

9  
10 For instance, a pumping station these days has  
11 telemetry. Telemetry is a system whereby from the  
12 office of the water authority they can log exactly  
13 what's happening with that pumping station, so they  
14 can determine the range of flows that get through  
15 that pumping station. If the peak goes off the  
16 scale, they clearly have a problem in the system,  
17 they can go and investigate it. So the modern  
18 systems are being set up to in fact support  
19 management of wet weather flows specifically for  
20 sewage.

21  
22 MS CIFUENTES: That is interesting. Going back to  
23 demand management again, it being quite a critical  
24 issue, I was interested in your comments that you  
25 thought Hunter's demand management strategies had  
26 been far more effective and the obvious question was  
27 why and you very conveniently answered that you  
28 thought part of the answer was that they were much  
29 closer to their community. Would you care to  
30 elaborate on that and perhaps by reference to how  
31 Sydney Water might be able to --

32  
33 MR PRICE: I am not qualified to answer that. I don't  
34 live near the place. I have worked with Hunter and  
35 Sydney Water and have lived in Sydney. It is a much  
36 smaller community there and they just seem more  
37 attuned to their community in some way. I couldn't  
38 really put my finger on it. All I can do is suggest  
39 that I think it is an area worth investigating  
40 because they were successful, so we've got a  
41 successful model.

42  
43 Hunter Water were the people who instigated the  
44 demand management system. Basically, they went out  
45 there and created the methodology and IPART picked  
46 it up and modified it. They went out there and they  
47 did demand management and they were successful. I  
48 think we need to understand why. This is not a  
49 substantially based observation but I've worked with  
50 them on a number of different things as a surveyor  
51 as well and it just seemed to me they are more in  
52 tune with their community and that makes it easier.  
53 They've got smaller packages to deal with and they  
54 can get their message out there. I think it's the  
55 way they implement it.

56  
57 One wonders whether at the end of the drought  
58 there will be an opportunity to do that. If people

1 are going to be forced into restrictions during the  
2 drought period and it is going to last for some time  
3 and the demand goes down, how do you keep it there?  
4 We've got the same problem with public transport in  
5 Sydney. We did a marvellous job during the Olympics  
6 but we haven't managed to maintain that. Why? We  
7 proved it could be done. Hunter Water has proven it  
8 can be done. The Olympics proved we could do it  
9 with public transport. It is the same problem; it  
10 is the same sort of issue. It is a public relations  
11 exercise.

12  
13 MR ROSE: We have watched Sydney Water's publicity  
14 campaigns attack demand management and I've got no  
15 criticism with the way they've seemed to have done  
16 that. They're disappointed that they don't seem to  
17 have done as well as Hunter Water did. In other  
18 respects I don't think they carry the same torch.  
19 If you go to Sydney Water and want to talk about  
20 reducing potable water demand by reusing some water  
21 out of one of their treatment works, then they just  
22 throw barriers in your way. You walk away and say,  
23 "Why bother?"

24  
25 In other arms of Sydney Water they don't have  
26 the commitment to demand management that I know they  
27 do have in the sort of corporate and pricing sense.  
28 Again, I'm not sure what you do with that but it is  
29 a truism.

30  
31 MS CIFUENTES: Thank you.

32  
33 MR COX: Thank you very much.

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1 DEPARTMENT OF HOUSING

2

3 MR COX: We now have the representatives from the  
4 Department of Housing. Would you like to come  
5 forward, please? Could you please introduce  
6 yourselves for the record and then start?

7

8 MS JAMIESON: I am Beryl Jamieson and I am from the  
9 Department of Housing.

10

11 MR DEANE: My name is Tony Deane and I am from the  
12 Department of Housing.

13

14 MS JAMIESON: We will present a slightly different  
15 perspective on water pricing arrangements.

16 Basically, our position stems firmly from being a  
17 welfare related agency. We want to talk a bit about  
18 issues of equity and some of the pricing issues. In  
19 the Department of Housing we feel like one of the  
20 welfare agencies that we are supporting is called  
21 Sydney Water and I'll explain that to you as I go  
22 through the process.

23

24 We have 85,000 households which are being  
25 serviced by Sydney Water. In terms of charging,  
26 \$33.2m are in service charges and \$21.22m are in  
27 usage charges. Our consumers are basically small  
28 households but their consumption has increased from  
29 229 kilolitres to 254 kilolitres in the last five  
30 years. 16 per cent of our properties have  
31 consumption levels over 400 kilolitres.

32

33 MS CIFUENTES: Could you repeat that percentage?

34

35 MS JAMIESON: 16 per cent have over 400 kilolitres. If  
36 we look at the pretty pictures, this is the median  
37 and average water usage over a period of years. The  
38 next picture shows the average indoor usage per DOH  
39 household. You can see the 400 kilolitres at the  
40 end. That is a bit of a problem for us. Going on  
41 with the story, we believe Sydney Water is unlikely  
42 to meet its demand management targets set for  
43 2004-2005 and we think one of the keys to reduction  
44 in that lies in the residential markets.

45

46 30 per cent of the New South Wales community  
47 live in rental properties and they don't get a  
48 pricing signal. The landlords are charged for water  
49 usage and not the tenants. Basically, we think that  
50 that's a joke. The Department of Housing wants  
51 Sydney Water and all the water authorities to  
52 directly bill the tenants. It wants them to  
53 establish relationships where the tenants get a  
54 pricing signal and understand what they're doing.

55

56 We think it is unsupportable for the current  
57 situation to continue. Landlords are held  
58 responsible for the service availability charges.

1 We think that in the new world the landlord should  
2 continue to be held responsible for the service  
3 availability charges but not for the water usage  
4 charges.

5

6 In 1994 Victoria introduced direct billing on  
7 consumption charges and we think that that's the way  
8 to go. The advantages of a direct billing system  
9 are quite obvious really. It provides incentives  
10 for water conservation through pricing signals to  
11 the actual users. They understand what they're  
12 doing and they get a message from it. It encourages  
13 landlords to install separate water meters in new  
14 and existing properties.

15

16 Those water meters are not installed in many of  
17 our properties. In fact, if you are with the  
18 Department of Housing you're sort of discouraged  
19 from doing it because if we install separate water  
20 meters, Sydney Water likes to install additional  
21 water meters at the culmination of all these meters  
22 and that is the one that they measure.

23

24 It is not very encouraging. We think that it  
25 provides agencies the opportunity to convey messages  
26 on water consumption to the real users of their  
27 services. We think this is a really important  
28 aspect of Sydney Water. If we're serious about  
29 cutting demand we have to be serious about passing  
30 on the message to people.

31

32 We think that if we did this, this additional  
33 30 per cent of people getting the signal about their  
34 water usage, we might actually have some significant  
35 impact on demand management.

36

37 Our second issue comes under the area of  
38 pensioner subsidies but it is about the service  
39 charges. 54.3 per cent of the Department of  
40 Housing's customers are people who are on aged,  
41 disability and Veteran Affairs type pensions. I am  
42 not talking about people who are on unemployment  
43 benefits, I am talking about people who have really  
44 significant disadvantage.

45

46 If these people were housed elsewhere in the  
47 community in their own homes they would get a  
48 pensioner's subsidiary, but actually the Department  
49 of Housing subsidises Sydney Water by paying them  
50 the full amount for the service charge and this is  
51 \$3.8m per quarter paid to Sydney Water.

52

53 Can you imagine what we could do with that for  
54 really disadvantaged people, for homeless people  
55 basically? I think that this is an inequitable  
56 system where the subsidy measure is available to  
57 home owners but not to other people. It is just an  
58 inequitable way of treating people. The amount of

1 subsidy would represent 50 per cent of the service  
2 charge that the Department of Housing pays, which is  
3 quite a lot of money.

4  
5 In addition - this is another area of the  
6 subsidy that the Department of Housing makes to  
7 Sydney Water - Sydney Water does not have to go  
8 through the tedious task of direct billing all of  
9 our tenants; it sends one bill and charges us the  
10 same amount of money. On estimates of things like  
11 postage and handling and whatever, we're subsidising  
12 them for \$1.1m in savings that they make by sending  
13 us the coagulated bills.

14  
15 This seems to us, a welfare related agency, to  
16 be an extremely inequitable charging rate. We  
17 recognise they have administrative costs but we  
18 don't want them moved to us, which is effectively  
19 what is happening.

20  
21 The Department of Housing has initiated two  
22 major measures to conserve water. It has been  
23 installing water saving devices in new constructions  
24 and jointly with Sydney Water it has had a \$1.5m  
25 program to retrofit 12,500 dwellings with water  
26 saving devices. A fast track retrofiting program  
27 would conserve 1.7 gigalitres of water per year and  
28 we could manage that to retrofit all the houses in  
29 three to four years.

30  
31 This is real demand management and it would  
32 cost \$10m and we believe this is a process that  
33 should be addressed if we're serious about demand  
34 management.

35  
36 The Department of Housing is also interested in  
37 working with Sydney Water and other agencies in  
38 doing a number of other things. We're interested in  
39 reuse of waste water in social housing developments  
40 but basically we would like, as the previous speaker  
41 said, some encouragement to do this and we believe  
42 that we have the capacity to demonstrate in  
43 significant developments that this can be done and  
44 done well.

45  
46 We're interested in the development of dry  
47 garden schemes in common areas to actually show  
48 people different ways of landscaping and caring for  
49 their homes. We're interested in the benefits of  
50 electronically read water meters which we think  
51 would actually save a lot of the service usage  
52 charge and we don't actually understand why we're  
53 not going down this path. We think all these things  
54 are pretty important.

55  
56 We've also considered many other parts of the  
57 information about pricing structures. We're  
58 interested in adequate consumer protection,

1 efficiency of supply services and the promotion of  
2 water conservation. I think I've pretty well  
3 covered off on those. We also agree with the  
4 pricing options canvassed by IPART's discussion  
5 paper and the Department supports a step pricing  
6 process because we think that it will provide a  
7 commercial incentive to Sydney Water for better  
8 managed demand and encourage fast tracking of things  
9 like the joint retrofiting program.

10  
11 It would not create any new social inequity  
12 issues. It would have no impact on the cost of the  
13 Department to lower income consumers. We think that  
14 is pretty important in this part of Australia which  
15 has the highest cost of accommodation. We think  
16 these things are really important to take into  
17 account. That is our summary, basically.

18  
19 MR COX: Thank you very much. I think you raised some  
20 very interesting issues. First of all, as a point  
21 of clarification, the 400 kilolitres, was that  
22 indoor usage you were saying or total usage?

23  
24 MS JAMIESON: That was total usage.

25  
26 MR COX: Thank you. You mentioned that Victoria has had  
27 direct billing since 1994. How is it going?

28  
29 MS JAMIESON: Yes. We understand they're pretty  
30 satisfied with it because it has made the tenants  
31 themselves directly responsible for water usage, but  
32 it isn't something that applies to the Department of  
33 Housing. It is something that applies to all those  
34 citizens in Victoria. Rental people are treated  
35 like citizens of Victoria and encouraged to be part  
36 of the conservation of water. That is a pretty  
37 important statement I think.

38  
39 MR COX: Have you discussed it with your counterparts in  
40 Victoria?

41  
42 MS JAMIESON: I haven't got the figures here, no.

43  
44 MR COX: Thank you. It would be interesting to follow  
45 it up.

46  
47 MS JAMIESON: That information is available, yes.

48  
49 MR COX: What stops it happening at the moment? Is it  
50 legislative impediments that are involved here or a  
51 policy decision by Sydney Water, or what is the  
52 state of play?

53  
54 MS JAMIESON: What stops it happening? I suppose that  
55 it is an easier call. They collect the money from  
56 the landlords; it is easier to do.

57  
58 MR COX: I can see why they'd want to do it. Is it

1 something Sydney Water can decide to change or is it  
2 unlikely?

3  
4 MS JAMIESON: They're likely to want to do it  
5 themselves. In terms of bad debts, they have no bad  
6 debts. They get ahead of time the full amount, no  
7 debt collection.

8  
9 MR DEANE: There is an Act covering the Water Board,  
10 Sydney Water and also the Rental Tenancy Tribunal  
11 Act probably requires changing.

12  
13 MS JAMIESON: We could accommodate the Rental Tenancy  
14 Tribunal Act.

15  
16 MR COX: Thank you for that information. Can you speak  
17 a bit about the success of the retrofit programs?  
18 You said you've made some savings. How has it gone?

19  
20 MS JAMIESON: It has gone very well. We've got through  
21 12,500 properties of the 80,000 properties in the  
22 Sydney metropolitan area. As part of our  
23 maintenance program we're retrofitting water saving  
24 devices as we go through the houses. It is a  
25 massive process. It offers the opportunity to  
26 reduce the demand which is device led, if you like,  
27 and it offers no incentive for the person in the  
28 household to try and reduce the demand. Merely by  
29 changing the cistern doesn't actually ask them why  
30 they're watering their garden all night.

31  
32 The real driver is the person in the household,  
33 not the device that's in the household. You get  
34 some benefit out of it and we have worked out what  
35 the benefit would be, we've calculated the benefit,  
36 but in terms of real demand management that's a  
37 really small impact. It is a much smaller impact  
38 than it would be if we had direct billing.

39  
40 MR COX: I understand that. Finally from me, there was  
41 some discussion earlier today, not so much in this  
42 price period but in the future, that there may be a  
43 need for the price of water to rise both to fund the  
44 additional activities of the water agencies and also  
45 because they're selling less and less money is  
46 coming in the front door. We're looking forward, in  
47 the agency's view, to a period of rising prices. If  
48 that were to be the case what would be the  
49 implications of that for the Department and for its  
50 customers?

51  
52 MS JAMIESON: We're looking at water charges at the  
53 moment in excess of \$55m, all up water charges, all  
54 directed at us. That is about a third of the annual  
55 maintenance budget of the Department of Housing for  
56 addressing backlog maintenance. If we actually were  
57 to increase the water charges by 20 per cent, that  
58 money comes from the same type of areas as the

1 maintenance programs come from, so it has a  
2 significant impact on the type of housing and the  
3 kinds of amenities of the housing in which our  
4 tenants live. That is an issue for them.

5  
6 MR COX: Thank you.

7  
8 MS JAMIESON: I understand that they're wanting to raise  
9 the funds for infrastructure, but they also raise  
10 the funds to provide an increased demand by  
11 providing access to additional water. I am not sure  
12 that by doing more things about demand management  
13 they actually need to raise the prices. I guess  
14 that's our issue. We don't think that they have all  
15 the incentives that they need to look at their  
16 pricing signals.

17  
18 MS CIFUENTES: Going back to the direct billing issue, I  
19 understand the current impediments in terms of the  
20 legislation and regulations that require that the  
21 landlord be the one who is charged by Sydney Water  
22 for usage and the excess charge. Is there any  
23 legislative impediment to you then seeking to recoup  
24 that money from your tenants?

25  
26 MS JAMIESON: We could recoup the money from the tenants  
27 but then the cost of actually doing that, of  
28 collecting the money from the tenants, is passed on  
29 to the landlord rather than to the water seller and  
30 our argument is that the cost of collection of the  
31 money should be with Sydney Water, not with the  
32 housing department

33  
34 MS CIFUENTES: Isn't that, though, a cost that was  
35 associated with any tenancy arrangement in the  
36 private sector?

37  
38 MS JAMIESON: Not in terms of electricity.

39  
40 MS CIFUENTES: No, but in terms of water. Currently, in  
41 terms of water, if you have a tenanted property you  
42 as the landlord pay Sydney Water, for example, and  
43 then you recoup that from your tenants.

44  
45 MS JAMIESON: We can do that if the properties are  
46 separately metered but, as I've explained, basically  
47 the meters are a bit of a waste of money when they  
48 won't read them. That is a bit of a disincentive to  
49 actually look at the water meters. I understand  
50 that's the way they do it now but if I was to  
51 compare it to other service charges, gas and  
52 electricity, when the actual user is billed, I can't  
53 see the difference.

54  
55 In terms of the service charges, we're arguing  
56 that the service charges lie with the landlord but  
57 the usage charges lie with the tenant. We believe  
58 that the seller of the water should collect the

1 usage charges from the tenant because they are  
2 saying they're wanting to manage demand, not that  
3 the landlord should be collecting the usage charges  
4 from the tenant.  
5  
6 MS CIFUENTES: Is there an equity issue involved in that  
7 that would cause some concern?  
8  
9 MS JAMIESON: What would the equity issue be?  
10  
11 MS CIFUENTES: That the tenant has to pay for the water  
12 usage when previously you're paying for it.  
13  
14 MS JAMIESON: In some of the other supported housing  
15 schemes the landlord does pass on the charges to the  
16 tenant, so it is a variable arrangement. The equity  
17 arrangement I think is about the cost of the water  
18 and we're saying that that could be redressed anyway  
19 if they introduced the pensioner arrangements to the  
20 tenants which are available to the rest of the  
21 community.  
22  
23 MS CIFUENTES: Is that not a matter for the Department  
24 of Housing to take up with Treasury, to the extent  
25 that Treasury develops policy on it?  
26  
27 MS JAMIESON: It is an issue we need to take up  
28 everywhere but it is an issue of equity. Part of  
29 the concern of the Tribunal is the issue of equity.  
30 Even if a private landlord is passing on the water  
31 usage cost to their pensioner tenant, that pensioner  
32 tenant does not get the pensioner's subsidy; it  
33 doesn't happen.  
34  
35 We have a water charging scheme for pensioners  
36 which recognises disadvantage in pensioners, for  
37 home owners but not for tenants, basically when the  
38 cost is passed on, and the other issue is that there  
39 is no guarantee that the water charge is passed on  
40 to the tenants and therefore we get poor pricing  
41 signals. A large proportion of tenants in homes are  
42 not separately metered, so you're actually getting  
43 no pricing signal.  
44  
45 MS CIFUENTES: Is there any role for the Department of  
46 Housing to pursue demand management with its  
47 tenants?  
48  
49 MS JAMIESON: The Department of Housing is very  
50 interested in demand management for its tenants and  
51 it visits tenants quite often that have high water  
52 usage. For the rest of the citizens of New South  
53 Wales when they open their letterbox four times a  
54 year they get that message, which in a way helps  
55 them focus on what they're doing as well as through  
56 the other path. We're just saying these people are  
57 no different to the rest of the citizens of New  
58 South Wales. They're part of that group of people

1 that need to take the responsibility for water  
2 consumption.  
3  
4 MS CIFUENTES: Have you had any measurable success with  
5 your demand management initiatives? The reason I  
6 asked that is previously we heard the comment that  
7 Hunter Water has managed to have considerable  
8 success with its demand management because of its  
9 closeness to the community. You have a close  
10 relationship with your community; have you also then  
11 had similar success?  
12  
13 MS JAMIESON: We've had some success with retrofitting  
14 in the water area. We have had success with  
15 visiting people and explaining it to them. That is  
16 probably not as long-lived a success as when they  
17 actually get a signal of the dollars basically.  
18  
19 MS CIFUENTES: That is interesting. Thank you.  
20  
21 MR COX: As I understand it, at the moment you do not  
22 charge tenants for usage.  
23  
24 MS JAMIESON: We charge some of the tenants for usage.  
25 The tenants that have tenancies through community  
26 housing get charged because the properties are  
27 separately metered.  
28  
29 MR COX: For those who don't, if the responsibility was  
30 to be transferred to Sydney Water they would start  
31 paying for that usage and that would reduce the  
32 amount of income they'd have to spend on other  
33 things. Is that an issue of concern to you?  
34  
35 MS JAMIESON: It would be an issue of concern if it  
36 wasn't coupled with access to the reduction  
37 associated with the tenant based subsidy which is  
38 available to other people. That would be an issue  
39 of concern.  
40  
41 MR COX: Thank you very much. That completes our public  
42 hearings on metropolitan water pricing. We now need  
43 to go away and think about all this and the other  
44 information available to us and eventually reach a  
45 decision. Thank you very much for your attendance  
46 and for your participation.  
47  
48 (At 4.39pm the Tribunal adjourned accordingly)  
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