

## DRAFT REPORT INTO THE REVIEW OF SYDNEY WATER'S PRICES

**Embargoed until 1.00am 16 March 2012**

The Independent Pricing and Regulatory Tribunal (IPART) today released its draft report on the prices that Sydney Water can charge for its services from 1 July 2012 to 30 June 2016.

Most customers will experience slight falls in real terms in their annual water and sewerage bills under the draft determination (or slight increases once inflation is incorporated into prices), with new pricing structures removing inequitable cross-subsidies between different users.

IPART is now seeking stakeholder feedback on the proposed prices. Submissions are due by 13 April 2012. IPART expects to complete its review and release its final determination in June 2012.

IPART Chairman Peter Boxall said that after a period of increasing prices, the new determination would result in reduced water bills for the vast majority of Sydney Water customers as a proportion of average earnings by 2016.

"Our draft decisions mean that the annual water and sewerage bill of a typical residential house will fall by \$57 in real terms by 2016," Dr Boxall said.

"The annual water and sewerage bill of a typical residential apartment will rise by \$18 in real terms by 2016, but if the apartment is within Sydney Water's stormwater drainage area the total water, sewerage and stormwater drainage bill will fall by \$15 per year by 2016 in real terms."

Pensioners are largely unaffected by the price changes with bills expected to rise by around \$1 a year in real terms due to concessions on the service charges.

Dr Boxall said the changes to the pricing structures are necessary to make the prices paid by each customer fair, and to ensure that costs of water usage are accurately reflected in customer bills.

"The price structure changes introduce a standard annual water service charge of \$77.44 for all residential customers, including apartment owners whose access to water has previously been subsidised by house owners," Dr Boxall said.

"Our draft decision is that all residential customers will pay the same price for the right to access water, and those who use the most pay the most in usage charges.

"Most apartment owners will see their water and sewerage bills increase but this depends on what they are currently paying. Those who also pay Sydney Water for stormwater drainage services will see this component of their bill reduce."

The price restructure affects non-residential customers in different ways, depending on the size of their meter and whether it is shared.

All non-residential customers will now pay a sewerage service charge depending on the size of their meter. The sewerage usage charge reduces. For non-residential customers who were

previously subject to the standard minimum sewerage charge and who share a meter, water and sewerage bills are likely to fall.

Water and sewerage bills for almost half of non-residential customers who have an individual 20mm meter and 260kL water usage a year will decrease by 4.7% (or \$57) by 2016 in real terms. However, the bills for other non-residential customers with an individual meter larger than 20mm may increase over the determination period. For example, an individually metered non-residential property with a 40mm meter and consuming 3,000 kL of water per year will face a water and sewerage bill increase of about 2.8%. This compares to Sydney Water's proposal to maintain the current price structure and increase all sewerage service charges by 18.4% and the sewerage usage charge by 6.8% over the four years.

Area-based stormwater drainage charges have been introduced to reflect the larger costs associated with drainage for larger areas. These changes affect only those customers (around 25% of all Sydney Water's customers) who receive stormwater drainage services from Sydney Water. The changes to stormwater drainage price structures result in price increases for customers with property sizes of greater than 1,000m<sup>2</sup>.

Customers with property sizes of greater than 10,000m<sup>2</sup> are likely to receive very large increases on their stormwater drainage bill but when combined with other price structure changes the impact on their total bills is reduced. IPART seeks submissions from customers, including those impacted by this price structure change.

The overall revenue that IPART has allowed in the draft determination is lower than Sydney Water's proposed increases of 15% plus inflation on the average residential water and sewerage bill.

Dr Boxall said the main drivers of the difference are IPART's decisions about the costs of capital included in prices, different views about potential efficiencies in capital and operating expenditure, and the decision to include the costs of Sydney Desalination Plant (SDP) in water security mode.

The draft determination is based on the assumption that desalinated water is not supplied by SDP in the four years to 30 June 2016. If the SDP operates, Sydney Water will pay it more and the prices that typical residential customers pay Sydney Water will rise by around \$38 per annum.

"Our decision means that customers only pay extra for the plant's operation when that happens," Dr Boxall said.

Under the draft determination, Sydney Water's revenue requirement is calculated using a real post-tax weighted average cost of capital (WACC), which is a change from previous determinations. On this basis, IPART has calculated the WACC at 5.5%.

IPART's draft calculation is lower than the WACC proposed by Sydney Water. On a pre-tax basis the decision is consistent with WACC applied in IPART's recent decision on the prices for Sydney Desalination Plant. In both decisions IPART has had regard to longer term averages given current market conditions.

IPART is confident that the prices in the draft determination will allow Sydney Water to continue to provide quality services and to comply with its operating licence.

“The draft determination incorporates efficiency targets for Sydney Water to achieve. Our review gives us confidence that Sydney Water can achieve these targets while maintaining its current service levels,” Dr Boxall said.

The report, *Review of prices for Sydney Water Corporation’s water, sewerage, drainage and other services, From 1 July 2012 to 30 June 2016* is available on IPART’s website <<http://www.ipart.nsw.gov.au>>.

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**Table 1 IPART's draft decision on water charges (\$2011/12)**

	1 July 2012 to 30 June 2013	1 July 2013 to 30 June 2014	1 July 2014 to 30 June 2015	1 July 2015 to 30 June 2016
Residential water service charge				
Individually metered property	122.46	107.12	92.17	77.44
Common metered property	77.44	77.44	77.44	77.44
Non residential (20mm individually metered property) service charge	122.46	107.12	92.17	77.44
Non-residential meter based service charge <sup>a</sup>	209.35	190.28	171.46	153.21
Usage charge	2.10	2.10	2.10	2.10

<sup>a</sup> Meter based charge is based on a 25mm meter. Applicable meter charge is set using the following formula: (Meter size)<sup>2</sup> x meter based charge/625

**Table 2 IPART's draft decision on sewerage charges**

	1 July 2012 to 30 June 2013	1 July 2013 to 30 June 2014	1 July 2014 to 30 June 2015	1 July 2015 to 30 June 2016
Residential sewerage service charge (\$2011/12)	543.73	546.52	548.36	550.22
Non residential (20mm individually metered property) service charge (\$2011/12)	543.73	546.52	548.36	550.22
Non-residential meter based service charge <sup>a</sup> (\$2011/12)	967.62	1110.20	1273.36	1460.28
Sewerage usage charge (\$nominal)	1.40	1.30	1.20	1.10

<sup>a</sup> Meter based charge is based on a 25mm meter. Applicable meter charge is set using the following formula: (Meter size)<sup>2</sup> x 25mm service charge/625

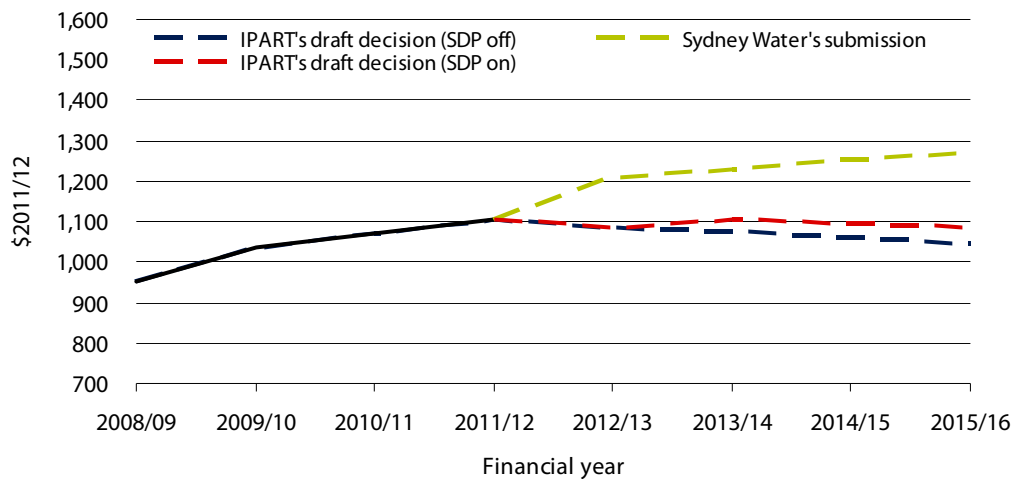
**Table 3 IPART's draft prices for stormwater drainage services (\$2011/12)**

	2012/13	2013/14	2014/15	2015/16
Apartments	\$50	\$43	\$28	\$16
Houses	\$60	\$73	\$80	\$86
Non-residential 0-200m <sup>2</sup>	\$50	\$43	\$28	\$16
Non-residential 201-1,000m <sup>2</sup> and low impact	\$60	\$73	\$80	\$86
Non-residential 1,001-10,000m <sup>2</sup>	\$200	\$350	\$500	\$580
Non-residential > 10,001m <sup>2</sup> per 100m <sup>2</sup>	\$3	\$8	\$13	\$17
	(min \$300)	(min \$800)	(min \$1,300)	(min \$1,700)

**Table 4 Annual water and sewerage bills for residential customers with an individual meter under the 2008 and draft 2012 determinations (\$2011/12)**

	2008 Determination				2012 Determination				Change 2011/12- 15/16
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	
<b>100 kL pa</b>	<b>777</b>	<b>836</b>	<b>866</b>	<b>895</b>	<b>876</b>	<b>864</b>	<b>851</b>	<b>838</b>	<b>-57</b>
% increase		7.6%	3.6%	3.3%	-2.1%	-1.4%	-1.5%	-1.5%	-6.4%
<b>150 kL pa</b>	<b>864</b>	<b>935</b>	<b>970</b>	<b>1,000</b>	<b>981</b>	<b>969</b>	<b>956</b>	<b>943</b>	<b>-57</b>
increase		8.2%	3.7%	3.1%	-1.9%	-1.3%	-1.4%	-1.3%	-5.7%
<b>200 kL pa</b>	<b>951</b>	<b>1,034</b>	<b>1,073</b>	<b>1,105</b>	<b>1,086</b>	<b>1,074</b>	<b>1,061</b>	<b>1,048</b>	<b>-57</b>
% increase		8.7%	3.8%	3.0%	-1.7%	-1.2%	-1.2%	-1.2%	-5.2%
<b>300 kL pa</b>	<b>1,126</b>	<b>1,232</b>	<b>1,280</b>	<b>1,315</b>	<b>1,296</b>	<b>1,284</b>	<b>1,271</b>	<b>1,258</b>	<b>-58</b>
% increase		9.4%	3.9%	2.8%	-1.4%	-1.0%	-1.0%	-1.0%	-4.4%
<b>400 kL pa</b>	<b>1,300</b>	<b>1,430</b>	<b>1,486</b>	<b>1,526</b>	<b>1,506</b>	<b>1,494</b>	<b>1,481</b>	<b>1,468</b>	<b>-58</b>
% increase		10.0%	3.9%	2.6%	-1.3%	-0.8%	-0.9%	-0.9%	-3.8%

**Figure 1 Impact of IPART’s draft decision on annual water and sewerage bills compared to Sydney Water’s submission for residential customers residing in individually metered properties consuming 200kL per year**



**Data source:** Sydney Water – Submission to IPART 2012 pricing determination p x and IPART.

**Table 5 Indicative annual water and sewerage service charges for residential customers with units in different sized blocks and sharing different sized meters (\$2011/12)**

Water use	Meter size	No of units	2011/12	2012/13	2013/14	2014/15	2015/16	Change 2011/12-15/16
150 kL pa per unit	40mm	10	913	936	939	941	943	30
				2.5%	0.3%	0.2%	0.2%	3.3%
150 kL pa per unit	65mm	26	914	936	939	941	943	29
				2.4%	0.3%	0.2%	0.2%	3.2%

**Note:** Residential customers on shared meters will not actually receive a bill from Sydney Water for the amounts shown above. They will receive an invoice from Sydney Water directly for their water and sewerage service charges, but will be paying for their water usage charge via their strata levies. The service charge for water and sewerage combined will increase by 1% from \$621.17 (\$2011/12) to \$627.66 (\$2011/12) by 2015/16.

**Table 6 Annual water, sewerage and stormwater drainage bills for residential customers residing in a house (\$2011/12)**

Water use	2011/12	2012/13	2013/14	2014/15	2015/16	Change 2011/12-15/16
100 kL pa	944	936	937	931	924	-20
%increase		-0.8%	0.0%	-0.7%	-0.7%	-2.1%
150 kL pa	1,049	1,041	1,042	1,036	1,029	-20
%increase		-0.7%	0.0%	-0.6%	-0.7%	-1.9%
200 kL pa	1,154	1,146	1,147	1,141	1,134	-20
%increase		-0.7%	0.0%	-0.5%	-0.6%	-1.8%
300 kL pa	1,364	1,356	1,357	1,351	1,344	-21
%increase		-0.6%	0.0%	-0.5%	-0.5%	-1.5%
400 kL pa	1,575	1,566	1,567	1,561	1,554	-21
%increase		-0.5%	0.0%	-0.4%	-0.4%	-1.3%

**Table 7 Indicative annual water, sewerage and stormwater service charges for residential customers with units in different sized blocks and sharing different sized meters (\$2011/12)**

Water use	Meter size	No of properties	2011/12	2012/13	2013/14	2014/15	2015/16	Change 2011/12-15/16
150 kL pa per unit	40mm	10	962	986	982	969	959	-3
%increase				2.5%	-0.4%	-1.3%	-1.0%	-0.3%
150 kL pa per unit	65mm	26	963	986	982	969	959	-4
%increase				2.4%	-0.4%	-1.3%	-1.0%	-0.4%

**Table 8 Indicative annual water and sewerage bills for non-residential customers with individual meters (\$2011/12)**

Water use	Meter size	Current size (2011/12)	2012/13	2013/14	2014/15	20/1516	Total change
<b>260 kL pa</b>	<b>20mm</b>	<b>1,231</b>	<b>1,212</b>	<b>1,200</b>	<b>1,187</b>	<b>1,174</b>	<b>-57</b>
%increase			-1.5%	-1.0%	-1.1%	-1.1%	-4.7%
<b>350 kL pa</b>	<b>25mm</b>	<b>1,628</b>	<b>1,709</b>	<b>1,802</b>	<b>1,912</b>	<b>2,042</b>	<b>414</b>
%increase			4.9%	5.5%	6.1%	6.8%	25.4%
<b>1,000 kL pa</b>	<b>40mm</b>	<b>4,820</b>	<b>5,057</b>	<b>5,315</b>	<b>5,604</b>	<b>5,934</b>	<b>1,114</b>
%increase			4.9%	5.1%	5.4%	5.9%	23.1%
<b>10,000 kL pa</b>	<b>100mm</b>	<b>46,354</b>	<b>46,756</b>	<b>47,358</b>	<b>48,252</b>	<b>49,483</b>	<b>3,129</b>
%increase			0.9%	1.3%	1.9%	2.6%	6.8%

**Note:** We have applied an average discharge factor of 79%, calculated from information submitted by Sydney Water in early November 2011 in response to requests from IPART.

**Table 9 Indicative annual water and sewerage charges for non-residential strata units sharing a meter (\$2011/12)**

Water use	Meter size	Equal strata connections	2011/12	2012/13	2013/14	2014/15	2015/16	Change 2011/12-15/16
<b>350 kL pa per unit</b>	<b>25mm</b>	<b>3</b>	<b>1,515</b>	<b>1,232</b>	<b>1,268</b>	<b>1,306</b>	<b>1,347</b>	<b>-168</b>
% increase				-18.7%	2.9%	3.0%	3.1%	-11.1%
<b>350 kL pa per unit</b>	<b>40mm</b>	<b>8</b>	<b>1,667</b>	<b>1,347</b>	<b>1,357</b>	<b>1,371</b>	<b>1,391</b>	<b>-276</b>
% increase				-19.2%	0.7%	1.1%	1.5%	-16.6%

**Note:** Non-residential customers on shared meters will not actually receive a bill from Sydney Water for the amounts shown above. They will receive an invoice from Sydney Water directly for their water and sewerage service charges, but will be paying for their water usage charge via their strata levies.

We have applied an average discharge factor of 79%, calculated from information submitted by Sydney Water in early November 2011 in response to requests from IPART. We have also distributed the free threshold allowance for sewerage evenly between strata units.

**Table 10 Indicative annual water, sewerage and stormwater drainage bills for non-residential customers with individual meters (\$2011/12)**

Water use	Meter size	Stormwater drainage charge category	2011/12	2012/13	2013/14	2014/15	2015/16	Change 2011/12-15/16
260 kL pa	20mm	0 - 200m <sup>2</sup>	1,359	1,262	1,243	1,215	1,190	-169
% increase				-7.1%	-1.5%	-2.3%	-2.0%	-12.4%
350 kL pa	25mm	0 - 200m <sup>2</sup>	1,756	1,759	1,845	1,940	2,058	302
% increase				0.2%	4.9%	5.2%	6.1%	17.2%
1,000 kL pa	40mm	201 - 1,000m <sup>2</sup> and low impact	4,948	5,117	5,388	5,684	6,020	1,072
% increase				3.4%	5.3%	5.5%	5.9%	21.7%
10,000 kL pa	100mm	1,001 - 10,000m <sup>2</sup>	46,482	46,956	47,708	48,752	50,063	3,582
% increase				1.0%	1.6%	2.2%	2.7%	7.7%

**Note:** We have applied an average discharge factor of 79%, calculated from information submitted by Sydney Water in early November 2011 in response to requests from IPART.