



Committee  
for  
Sydney

# Prices for Sydney Water Corporation from 1 July 2020

## Submission from the Committee for Sydney

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October 2019

The Committee for Sydney welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal (IPART) *Review of prices for WaterNSW Greater Sydney*.

The Committee has long been an advocate for water policies that build resiliency to periods of low rainfall. In 2015, the Committee's report on [Sydney's Water Future](#) warned of the need to "break the pattern of the previous two centuries of crisis management and start thinking now about what we are going to do when the inevitable happens and we experience a protracted period of water scarcity". At the time, Sydney's water catchments were close to full or overflowing, whereas a few short years later, dam levels have fallen below 50% full and the NSW Government is looking to [substantially increase the capacity of Sydney's desalination plant](#).

The Committee recognises that many aspects of water policy fall outside the scope of this review, and accordingly, this submission will adopt a more narrow focus. It is also not our intention to address the full list of questions identified in the IPART Issues Paper. Instead, this submission will focus specifically on regulation and pricing pertaining to Sydney Water, with responses only to the first three key issues flagged by the review.

The submission has no particular contribution to add to the final issue area pertaining to customer preferences.

### **About the Committee for Sydney**

The Committee for Sydney is an independent think tank and champion for the whole of Sydney, providing thought leadership beyond the electoral cycle. Our aim is the enhancement of the economic, social, cultural and environmental conditions that make Sydney a competitive and liveable global city.



## Issue 1: Protecting the environment

*Could Sydney Water's customer engagement be improved to inform future pricing proposals? For example, should Sydney Water's customer engagement program focus more on environmental outcomes and performance?*

The Committee welcomes IPART's call for Sydney Water's customer engagement program to capture community viewpoints across a wider range of environmental outcomes.

At present, the existing environmental objectives guiding investment by Sydney Water are informed to a large degree by environmental legislative obligations, including but not limited to the Environmental Protection License (EPL) conditions set by the NSW Environment Protection Authority (EPA). These regulations focus on protection of the environment from pollutants and other disruptive changes and are underpinned by a rigorous regime of scientific analysis and monitoring. The Committee's view is that this is an appropriate model for determining regulation pertaining to environmental protections.

The IPART discussion paper has however framed the possibility for additional community consultation occurring within the context of environmental outcomes, rather than a more-narrow framing of environmental protections. As such, it is appropriate to consider whether there is scope for further consultation around investments in water infrastructure that would provide additional environmental and urban amenity benefits above and beyond those that are mandated under existing state government legislation and regulation.

The Committee notes that the NSW Government has already flagged the possibility of such investment occurring in conjunction with the roll out Sydney's Green Grid. The Greater Sydney Commission's [Metropolitan Greenspace program](#) has already developed a long-term vision for Sydney's Green grid that will incorporate a program of environmental revitalisation across many of Sydney's waterways. Similarly, the Office of the Government Architect is examining opportunities to transform Sydney's waterways into an interconnected [blue-grid](#). Both initiatives aim to improve the water and ecological quality of waterways to transform them into urban infrastructure community which acts as connectors rather than barrier.

The Committee called for precisely this outcome as part of our 2015 report on [Sydney's Water Future](#). This submission therefore supports the NSW Government's ambition to open the land adjacent to waterways for water treatment, protection of ecological communities, open space and recreation. Much of this investment will, and should, be directly funded by the NSW Government and local councils. There are nonetheless likely to be some implications for infrastructure that is currently maintained by Sydney Water, and as such, it is appropriate to consider how community engagement could help to gauge community support for additional investment in a program of waterway revitalization.

Given that investments in waterway renewal would result in largely localised benefits, it may be appropriate to consider whether residents in those local communities which are likely to benefit would be willing to make supplementary payments on their water ways to facilitate the delivery of the blue grid in their local area, supported by investment from other tiers of government as appropriate.



Such a concept is not without precedent. A recent example of such investments can be seen in the Vacluse-Diamond Bay project, which was undertaken to cease untreated wastewater outfalls in dry weather. Though this project was largely undertaken at the request of the EPA in response to identified health impacts, development of the project nonetheless involved a period of community consultation, which resulted in customers providing their support a very marginal increase in their water bills to cover the costs.

As such, limited scope already exists for consultation to occur around discretionary spending on projects which provide localised environmental benefits. The Committee would be open to opening up new avenues for consultation in support of new revenue streams to help fund the delivery of the NSW Government's Blue Grid program. The potential development of such a scheme should be undertaken in consultation with relevant stakeholders, such as Sydney Water and the Government Architect of NSW.

### Recommendation for Issue # 1:

- 1. Recommendation 1:** That the NSW Government work with Sydney Water to develop a community consultation model that can test community support for new revenue streams to deliver on the promise of a Blue Grid for Sydney.

## Issue 2: Planning for the future.

*How should Sydney Water plan and recover the investments needed to service Sydney's growing population?*

The Committee for Sydney acknowledges that forecasting the water needs of Sydney and NSW more broadly is challenging given the high levels of variability in rainfall, coupled with uncertainty around the locational distribution of urban renewal and housing development. Such forecasting is made harder by the challenge of climate change and by uncertainty introduced by evolutions in water policy agenda at both the federal and state level.

This variability necessarily creates a degree of volatility in the revenue streams of Sydney Water. To ensure that volatility in revenue does not impact Sydney Water's capacity to plan and recover the investments needed to service Sydney's growing population, there is currently a mechanism in place which allows "an adjustment to the revenue requirement and prices" at a subsequent price review to address any over-or-under-recovery of revenue due to material variation between forecast and actual water sales. A material variation is defined as "more than  $\pm 5\%$  over the whole determination period". The Committee views this mechanism as having worked well over the current determination period, and as such, would have no objection to it being implemented over the coming determination period.

The Committee also acknowledges that Sydney Water has recently updated and improved its long run demand forecasting model to include the impact of climate change induced weather, and as such, anticipates that variation beyond 5% is now less likely, though variations beyond this threshold are still possible during periods of severe or prolonged drought. For now, the Committee's view is that any further change to the overall materiality threshold should only occur once new models have been sufficiently tested, and as such, we propose no quantitative change to the overall threshold for the 2020 determination.



While a  $\pm 5\%$  materiality threshold should be sufficient in scale to cover most incidents of variability, there is one example where unanticipated changes could result in a result that far exceeds this scope: unscheduled government intervention. This could come in the form of earlier than anticipated water restrictions, or non-previously announced investments in desalination or other forms of water infrastructure.

The Committee believes that the NSW Government is the primary authority for delivering water security to communities across the state and is within its authority to introduce unscheduled interventions, particularly when responding to rapid and unanticipated events. An example of this can be seen in the NSW Government's decision to impose Stage 1 Water Restrictions at an earlier stage than had been previously flagged through government regulation. Stage 1 water restrictions were meant to be automatically triggered once Sydney's dams fell below 50%, but the NSW Government took the decision to enact the restrictions prior to levels reaching 50%. It did so in response to a rapid depletion that saw water levels decline from [96% to 53.5% in the space of roughly two years](#), with government acknowledging that the rapid decline in rainfall coupled with the typically slow process of driving changes in water use across the community meant that action needed to be taken.

Similarly, the NSW Government may yet decide to enforce Stage 2 water restrictions ahead of their 40% trigger threshold if it becomes concerned that the city is facing a continuation of the current prolonged period of low rainfall. Such a decision would be well within the purview of the NSW Government to undertake, but it also needs to be acknowledged that such an action would likely result in substantial changes to water usage and sales that go well beyond the  $\pm 5\%$  materiality threshold that currently exists, creating a risk that Sydney NSW may not be able to recover costs on the very investments that are necessary to enhance Sydney's resiliency to drought and heightened rainfall variability.

While it may be tempting to write off the implications of such a result by suggesting that the NSW Government simply accept a lower level of dividends over time as a result of its own decision to introduce new water restrictions, such a result risks creating an incentive for fiscally-conscious politicians to defer the introduction of water restrictions that may otherwise be necessary in order to protect the budget balance.

As such, the Committee's view is that a preferable solution would be to introduce a new mechanism within the  $\pm 5\%$  materiality threshold which would allow for yearly adjustments to be made specifically in the event of water restrictions or in the event of drought events. This would not only provide greater flexibility than the current system of only recovering costs in the subsequent determination window, it would also send a more immediate price signal to consumers to reduce their consumption during periods of low supply. It would also free up our political leaders to take action as they see necessary without undermining the capacity of Sydney Water to invest in appropriate water infrastructure upgrades.

#### Recommendation for Issue # 2:

- 1. Recommendation 2:** That the mechanism of  $\pm 5\%$  materiality threshold be maintained for the 2020 determination, with an added feature which allows for yearly adjustments in the event of changes to government policy and/or unanticipated drought conditions.



## Issue 3: Drought and water scarcity

*How should our review account for the risks of drought and support water conservation?*

The Committee notes that Outcome 2 of the [2017 Metropolitan Water Plan](#) is to ensure that our water supply system is resilient to stresses and shocks. The Committee views it as appropriate that systems to ensure resiliency is embedded into Sydney Water's Operating License. The Committee also welcomes the [NSW Government's decision](#) to impose Level 1 water restrictions across Greater Sydney and to commence planning for an expansion of capacity at Sydney's desalination plant.

While welcome, such policies will only provide part of the solution required to deliver on the objectives of the [2017 Metropolitan Water Plan](#). In our 2015 report on [Sydney's Water Future](#), the Committee warned that the Greater Sydney Commission's plans for the Western Parkland City would necessitate a mature discussion around whether the construction of a new network of pipelines to transfer waste towards the ocean was the most solution for a region that is expected to house over one and a half million people.

The Committee anticipates that recycled water will likely play a larger role in many new areas of development and urban renewal but notes that community skepticism remains a challenge in the delivery of alternative solutions moving forward. To combat this, the offers its support for the current policy of providing a discount on recycled water set at 90% of the price of potable water. This discount should be continued.

Beyond the five-year determination, the Committee has no fixed view around proposals to simplify the recycled water pricing framework, other than to suggest that future changes be undertaken in consultation with Sydney Water and the community more broadly.

### Recommendation for Issue # 3:

- 1. Recommendation 3:** That recycled water continues to receive a pricing discount.