



Australia's property industry

Creating for Generations

22 April 2020

Dr Paul Paterson
Chair
Review of Sydney Water Corporation prices
Independent Pricing and Regulation Tribunal
PO Box K35
Haymarket Post Shop
Sydney NSW 1240

Dear Dr Paterson

Draft Report: Review of Sydney Water Corporation prices for 2020-2024

The Property Council welcomes the opportunity to provide comments to the Independent Pricing and Regulatory Tribunal (IPART)'s Draft Report on Sydney Water's pricing proposal for 2020-2024.

The Property Council of Australia, as Australia's peak representative of the property and construction industry, has members from parts of the sector including owners, developers and investors of all asset classes. Our members own and develop property across most of Sydney Water's area of operations, including Western Sydney and the Illawarra.

We are pleased to provide the following comments for your consideration.

Introduction

The Independent Pricing and Regulatory Tribunal's Draft Report follows Sydney Water's initial pricing proposal published in July 2019, release of an Issues Paper on water pricing in September 2019, an updated pricing proposal from Sydney Water in November 2019, a public hearing and an expert review of Sydney Water's proposed expenditure and supporting technical and financial information by Atkins Cardno.

The Property Council made a submission responding to Sydney Water's issues paper in October 2019. Within this submission we supported Sydney Water's proposal where it provided for expanded water infrastructure to support a growing economy and metropolitan population. We also supported Sydney Water's position of sharing the cost of servicing new development across Sydney Water's existing customer base, rather than introducing new charges to an already complex developer contributions framework.

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While there are aspects of IPART's Draft Report that are welcome, the Property Council does not support the draft decision to reduce Sydney Water's capital expenditure by \$935.4 million, \$484.3 million of which is earmarked for the Prospect to Macarthur Link. This is particularly important given the critical role infrastructure investment will have in rebuilding the economy post COVID-19.

Changed price model

There is a substantial difference in pricing models between Sydney Water's updated proposal and IPART's Draft Report, with Sydney Water's model following a similar structure to prior years while IPART's approach proposes a significantly reduced (\$21.22, down from \$96.69) water service charge, opting for higher consumption-based charges per kilolitre, with a far steeper price surge in the event of dam levels falling below 60 per cent.

The Property Council is agreeable to either of these approaches, provided the final determination generates the revenue required to deliver the infrastructure required to support a growing metropolis as identified in the Greater Sydney Commission's Regional Plan for Greater Sydney. The Plan envisages the need for an additional 725,000 houses by 2036 and has been informed by the forecasts and approvals set by the Department of Planning, Industry and Environment in partnership with local councils.

Prospect to Macarthur Link

The Prospect to Macarthur Link provides for a two-way pipeline between the Prospect South and Macarthur systems with capacity to supply up to 120 ML/day. For Western Sydney, it provides the capacity to meet additional growth, and relief to communities reliant on water supply from dams which in the last twelve months reached critical levels in the outer south-west and Illawarra.

The Draft Report relies on recommendations from Atkins Cardno to remove \$935.4 million in capital expenditure, \$484 million of which is allocated for the Prospect to Macarthur Link. When making these recommendations, Atkins relies on rainfall from February (which brought dam levels to 80 per cent) to make the case for indefinitely deferring the project, pending "a comprehensive drought resilience study to be undertaken and costed to prepare for future drought events."

This study has already been completed as part of the 2017 Metropolitan Water Plan (MWP). According to Sydney Water's updated proposal, the MWP required that Sydney Water and Water NSW "undertake a drought supply options study when total dam storages reached 60 per cent, to investigate the most suitable response measures in the event of an extreme drought."

However, it is important to remember that the case for the Prospect to Macarthur Link has as much to do with the servicing the needs of a growing metropolis as it does with providing drought resilience infrastructure planning

Over half of the proposed link infrastructure between the Prospect South and the Macarthur water delivery systems will service new growth areas in the Western Sydney Aerotropolis and the South West Growth Area. The existing infrastructure in these areas was designed to service rural properties and not built to cater to the growth anticipated and planned for these areas. As a result, our members are experiencing additional barriers to receiving approvals in-line with market demand and expectations for their sites.

It is important that Sydney Water is resourced to enable it to deliver infrastructure to new housing being built around Sydney, and in particular Western Sydney for the above reasons. Failure to allow Sydney Water to fund and deliver key enabling infrastructure in Sydney's growth areas puts at risk the new homes that Sydney needs to meet its growing population.

Stormwater drainage services (except Rouse Hill)

In the Property Council's earlier submission, we advocated for the retention of constrained area pricing and were supportive of Sydney Water's position. We are pleased to see this reflected in IPART's Draft Report.

Rouse Hill drainage charges

We are pleased to see IPART acknowledge our support for the gradual reduction in stormwater drainage charges for Rouse Hill over the 2020-24 period in the Draft Report and we welcome the draft decision, which is in line with Sydney Water's proposal.

The Property Council supports Sydney Water's position regarding the calculation of these charges and we recommend the continuation of constrained area pricing for the 2020-2024 determination.

Form of Regulation Issues

Length of determination period

Sydney Water and IPART both favour a continuation of the current four-year pricing determination period as it strikes an appropriate balance between providing certainty to the regulated business and limiting delays in customers benefiting from efficiency gains. The Property Council supports continuation of the current four-year pricing cycle.

Unregulated pricing agreements.

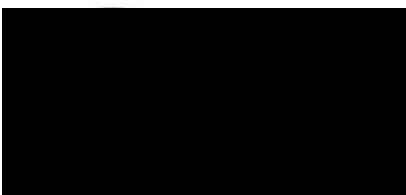
The Property Council welcomes the IPART's draft decision to retain Unregulated Pricing Agreements, and we are pleased to note the Tribunal's shared understanding that these agreements provide an avenue to "encourage negotiations between the utility and large customers with potentially unique costs of service and/or service level requirements".

Non-regulated revenue

The Property Council notes the consideration of our previous submission on this matter and welcomes the draft decision to accept the proposal outlined by Sydney Water.

We look forward to the consideration of these comments in the preparation of IPART's final report. Should you have any questions, please do not hesitate to contact Troy Loveday, Senior Policy Advisor on [REDACTED].

Yours sincerely



Jane Fitzgerald
NSW Executive Director
Property Council of Australia