

18 April 2016

Our Ref: s120644
File No: 2016/

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
NSW 1240

Submitted online:
http://www.ipart.nsw.gov.au/Home/Consumer_Information?Lodge_a_submission

To whom it may concern,

Submission to IPART's Draft Report: Review of Prices for Sydney Water

The City Of Sydney (the City) is pleased to make this submission to the Independent Pricing and Regulatory Tribunal's (IPART) Draft Report: Review of prices for Sydney Water Corporation from 1 July 2016.

In its submission to IPART's Issues Paper dated 1 October 2015, the City noted two major concerns: that proposals to reduce prices from 1 July 2016; and the 'retail minus avoidable costs' pricing model for wholesale customers would have perverse outcomes for water efficiency and recycling.

The City notes that wholesale pricing is now the subject of a separate review and a review of recycled water prices will occur in 2017-18.

As discussed in its previous submission, the City is striving for a water sensitive city that achieves the following outcomes for its community:

- Efficient use of potable water and reduced reliance on the potable water and sewerage network;
- Increased amenity and urban cooling through improved green space maintained by independent, climate resilient water supplies; and
- Improved quality of local waterways through reduced pollution discharged via wastewater and stormwater outlets.

These outcomes are increasingly important as we respond to the demands of an increasing population and changing climatic conditions including warmer temperatures and changing rainfall patterns.

The City's concerns relating to IPART's review of Sydney Water prices follow.

Draft prices are lower than current prices

The City is concerned that lowering water prices will lead to behavioural shifts towards increased water consumption. Lower water prices will also reduce the incentive to invest in water efficiency measures as potential savings will be diminished and pay back periods extended. Both these outcomes will negate ongoing efforts by Sydney Water and the City to raise the importance of water conservation within the community and may lead to increased water consumption.

The City continues to invest in a number of water efficiency programs to reduce consumption in its local government area by 10% of 2006 levels by 2030 as outlined in its submission dated 1 October 2015. There are still considerable opportunities available to implement water efficiencies across the business and residential communities, however lowering prices will reduce the City's ability to successfully engage communities on the importance of water efficiency. Its programs will likely diminish through a waning of community enthusiasm and reduced impetus to conserve water.

Trunk stormwater drainage is a Sydney Water responsibility in the City of Sydney LGA and Sydney Water levy a storm water charge accordingly.

However, in order to ensure the development the Green Square and Ashmore Estate urban renewal areas, the City of Sydney has been required to fund up to 53% of the stormwater trunk drainage augmentation costs. These funds which amount to in the order of \$75M have been diverted from other important public infrastructure projects.

The City notes that there is no proposed increase in stormwater funding in IPART's Draft Report. The City recommends that the appropriate level of funding is included in IPART's determination to ensure that Sydney Water is able to deliver future stormwater augmentation projects that are part of its responsibility. While a portion of these cost may be recoverable via Developer Contributions, Local Government rate payers should not be burdened with expenditure that is the responsibility of Sydney Water.

Integrated water cycle management to achieve liveability

Rather than reducing prices, the City would prefer to see surplus revenue invested in integrated water cycle management (IWCM) to create drought resilient, more liveable and healthier communities. This requires integrated planning and delivery of diverse water infrastructure to manage all aspects of the urban water cycle: potable water, stormwater, recycled water and wastewater.

Sydney Water's current delivery model and pricing structure considers each water source separately which constrains integration and ultimately innovation and industry change. IWCM needs to be considered early in land use planning processes to ensure efficient delivery of infrastructure and enhanced liveability outcomes.

Even through a slightly smaller reduction in Sydney Water prices, surplus revenue could be directed to IWCM planning on a sub-regional or precinct scale. This would enable opportunities to be assessed and investment targeted in the most cost effective areas.

Liveability was a predominant theme of the discussion in the public hearing on 10 November 2015, with questions from key stakeholders in relation to Sydney Water's role in enhancing liveability for Greater Sydney. However, it is not clear in the draft report how these concerns have been addressed or acknowledged.

There is reference to liveable cities, integrated water cycle management and avoided costs on p174 of the Draft Report. However, discussion on these topics has been deferred until IPART's 2017-18 review of recycled water. These topics are not exclusive

to recycled water and require consideration in all reviews including this review, IPART's review of wholesale prices and IPART's review of recycled water.

The fact that three separate reviews are occurring at different times demonstrates the lack of integration of water cycle management that currently exists. A broader review or inquiry is required for IPART to consider how to enable the delivery of liveability outcomes by both public and private water sector suppliers. This inquiry should precede the review of wholesale prices.

Introduction of low-impact customer category for stormwater

The City supports the concept of a low-impact customer category for stormwater customers however it questions the costs versus benefits to administer such a scheme.

The City would like IPART to also consider low-impact customers for water and wastewater. For example, customers that use recycled water have reduced demand for potable water and reduced loads to the sewerage system.

Pass through of Sydney Desalination Plant costs to send scarcity signals to customers

The City supports making drought-response costs more transparent to customers through an increase in the water usage charge if the Sydney Desalination Plant is operating. This increase in water usage charge is to cover the additional variable costs associated with the supply of desalinated water.

The City notes that fixed costs of Sydney Desalination Plant are covered by all of Sydney Water's customer base on an ongoing basis and in shutdown mode, these costs represent about \$94 of a typical annual residential bill.

Recycled water schemes also increase water security through the provision of drought resilient water supplies. Recycled water displaces potable water demand used for non-potable uses such as irrigation, toilets, laundries and cooling. But recycled water costs are not covered by Sydney Water's broader customer base.

We would welcome the opportunity to discuss these important issues with you further. To arrange a meeting or for any questions in relation to this submission please contact Lisa Currie, Manager Water Strategy on [REDACTED] or at [REDACTED].

Yours sincerely

[REDACTED]

Monica Barone
Chief Executive Officer

