

REVIEW OF PRICES FOR SYDNEY WATER CORPORATION

**SUBMISSION BY TOTAL ENVIRONMENT CENTRE TO THE
INDEPENDENT PRICING AND
REGULATORY TRIBUNAL**

October 2015

INTRODUCTION

Total Environment Centre (TEC) welcomes the opportunity to comment on the review of prices for Sydney Water Corporation. TEC believes that key principles underlying this review must be the need to maintain strong resource conservation signals and to ensure that environmental costs are adequately reflected in prices.

Detailed comments to issues raised in the Tribunal's issues paper are provided below.

LENGTH OF THE DETERMINATION PERIOD

TEC believes that 4 year determinations have generally worked well and are appropriate for the current review. We support the Tribunal's view that this provides a balance between providing certainty to the regulated business and limiting delays in efficiency gains (IPART, 2015). Further the current timing of four yearly determinations occurs at a point in the NSW electoral cycle that reduces the likelihood of the pricing process becoming politically compromised.

TEC acknowledges that there is merit in maintaining alignment of determination periods between Sydney Water, Hunter Water and Water NSW. This allows a consistent approach to be maintained to issues common to all three agencies. We caution, however, that conducting reviews simultaneously places considerable burdens on community and non-government organisations that lack the resources of large utilities or the Tribunal. This could limit the quality of participation in the review process.

OPERATIONAL EXPENDITURE

TEC urges the Tribunal to ensure Sydney Water's proposed operating expenditure is sufficient to ensure that the corporation is able to meet all of its environmental and system performance obligations. TEC is not in a position to provide detailed critique of all of Sydney Water's proposals; however we offer comments on proposals relating to operation of the Sydney Desalination Plant (SDP) and Shoalhaven pumping.

Sydney Desalination Plant costs

TEC supports Sydney Water's proposal to pass through to customers any additional costs incurred if the SDP is required to operate over the course of the next pricing period.

In our submission to the 2011 pricing review (TEC, 2011) we noted that some form of scarcity pricing may be appropriate for the desalination plant. SDP represents the most expensive and environmentally damaging supply option available. It is therefore appropriate that this be reflected in pricing arrangements. We concur with Sydney Water (Sydney Water Corporation, 2015) that passing through additional costs incurred as a result of operating the plant would create an incentive for customers to save water and send a message to customers about the additional costs (both financial and environmental) of water derived from this source.

TEC strongly believes that consideration of cost pass through mechanisms should not be divorced from SDP operating rules. Current operating rules that require the plant to commence operation when storage levels fall below 70% and continue operation until levels exceed 80% (70/80 rule) are inappropriate. We have previously argued (TEC, 2011) that the plant should only commence operation when storage levels fall below 30% (the originally proposed 'trigger' for constructing the plant) and that operation should cease when storage levels recover to above 40% (30/40 rule).

The overriding principle that should apply is that the SDP plant should operate for the minimum amount of time possible during periods of critical supply shortage. We therefore urge the Tribunal to recommend that SDP operating rules be reviewed to ensure that the plant only operates during times of critical drought shortage.

Shoalhaven pumping costs

TEC believes that increased costs associated with Shoalhaven pumping should be recovered via a cost pass through mechanism similar to that being considered for additional SDP costs. This would reflect the additional financial and environmental costs (energy consumption and withdrawal of water from the Shoalhaven system) associated with Shoalhaven pumping.

We note the Tribunal's comment that, if Shoalhaven transfers are dealt with in this manner, a trigger for transfers would need to be clearly defined (IPART, 2015). Consistent with our position on SDP operation, TEC believes that Shoalhaven transfers should be restricted to periods of drought shortage.

CAPITAL EXPENDITURE

As with Sydney Water's proposed operation expenditure TEC is not in a position to provide detailed critique of all of Sydney Water's proposals; however we urge the Tribunal to ensure that it is sufficient to ensure that Sydney Water is able to meet all of its environmental obligations and that there is no increase in the corporation's environmental impact. As identified by the Tribunal an important element of this will be investment in Wet Weather Overflow Abatement (IPART 2015).

Wet weather overflows represent an ongoing source of environmental impact by Sydney Water. We note that Sydney Water has invested substantially in reducing overflows since 2000 and that this has a positive effect on water quality at beaches and in waterways (Sydney Water Corporation, 2015). We are concerned, however, that Sydney Water's submission displays resistance to meeting the remaining 20% of their 2021 frequency targets for wet weather overflows. We note that Sydney water intends to propose new Environmental Protection Licence conditions in relation to overflows for its Malabar, North Head, Bondi and Cronulla systems (Sydney Water Corporation, 2015). It is not clear at this time whether such changes would result in improved environmental outcomes or simply reduced costs. In the absence of this detail we cannot support allowing Sydney Water to underinvest in meeting its long-term Wet Weather Overflow Abatement

requirements. We urge the Tribunal, however, to critically review the Corporation's estimates of the level of investment required to meet these obligations. This should include investigating alternative measures such as reducing wet weather inflows into the sewerage system i.e. addressing leaks and illegal connections.

FORECAST WATER SALES AND CUSTOMER NUMBERS

TEC notes that Sydney Water forecasts an increase in demand of 4.3% over the 2016 determination period (IPART, 2015). This expected increase in demand highlights the importance of providing strong resource conservation signals via pricing structures (see below).

PRICE STRUCTURES

Water prices

Providing strong conservation signals and reducing demand for water should be a key consideration in determining price levels and structures. TEC does not believe that current pricing arrangements are adequate to achieve this objective. We note also that feedback from customers indicates a strong desire for greater control over their bills (IPART, 2015; Sydney Water Corporation, 2015).

Current high levels of fixed charges reduce the control that customers can exercise over their bills and thus diminish the resource conservation signal sent through prices. We have welcomed moves to reduce the level of fixed charges in previous price determinations as a positive step to overcoming this situation. We therefore support Sydney Water's proposal to reduce the water service charge for residential customers and increase the proportion of revenue recovered from water usage charges.

Sewerage prices

While we welcome Sydney Water's proposals in relation to water prices, further price reform is required. In particular, TEC believes that current sewerage pricing arrangements do not provide adequate resource conservation signals or reflect the full environmental costs of disposing of effluent. We strongly believe that fixed charges for wastewater services should be reduced in favour of volumetric usage charges.

Large fixed charges for sewerage services significantly reduce the control that customers can exercise over the size of their bills. The result is reduced incentive to adopt more efficient appliances and water use strategies, thus eroding the resource conservation signal sent by water usage charges.

TEC also believes that wastewater charges should not only reflect the economic costs of transporting and treating effluent, but also the environmental costs of discharging effluent to receiving waters. To reflect the greater environmental costs imposed by those who discharge higher volumes of effluent and in accordance with the principle of polluter

pays - usage charges (such as those previously applied by Hunter Water) should be applied to wastewater services for all customers.

Reducing pressure for supply augmentation is not the only goal or benefit of demand management. Reducing demand for water will also reduce the volume of effluent discharged to the sewerage system and thus lessen environmental impacts. In this context it is appropriate that volume pricing for wastewater form part of overall demand management strategies.

TEC recognises that this approach has limitations in that it is difficult to meter domestic wastewater discharge. In the absence of any means of metering discharge it is necessary for usage charges to be linked to water consumption.

It is clearly not appropriate for discharge factors to be set at 100% given that most customers do not discharge all their water into the sewer. The discharge factor should therefore be set at a reduced level.

While clearly not a perfect system, we strongly believe that it represents a superior approach to present pricing arrangements. It is true that such a pricing structure does not take into account the possibility that the amount discharged to the sewer may vary from property to property. It is clearly fairer, however, than a simple fixed service charge which reduces the capacity for customers to control their bills and effectively subsidises high users at the expense of more water efficient customers.

In order to make such a pricing structure more accurately reflect the contribution of flats and units the discharge factor for such properties should be set at a higher level

TEC believes that the Tribunal should also direct water agencies to investigate mechanisms that would more accurately reflects the contribution of each customer to the sewerage system such as wastewater metering or charging according to property size and land use. Such a system should also include rebates for customers who can demonstrate that they have reduced their contribution to the sewerage system (and thus the environmental costs of effluent disposal) through the installation of water efficient devices and improvements to private service lines.

TEC does not support Sydney Water's proposal to fix the discharge allowance for non-residential at 300 kL per year (Sydney Water Corporation, 2011). We support the Tribunal's proposal to continue to reduce the discharge allowance to 150 kL per year (IPART, 2015). This would send a stronger volumetric price signal and provide an incentive to invest in on-site recycling. Furthermore, this would reduce cross-subsidisation of customers who discharge large volumes of wastewater by those who discharge less.

Stormwater prices

TEC has long supported the development of area based charges for stormwater services. We therefore supported the Tribunal's proposals to introduce such a system in the last

price review (IPART, 2011). Consequently we support further transition towards strict area-based charges. We believe that allowances should be made for properties with a low ratio of impervious services. Such an arrangement would encourage water sensitive urban design. Further, allowances should also be made for customers who install rainwater tanks and so reduce run-off from their properties.

WHOLESALE PRICES

TEC supported the introduction of competition into the water sector under the *Water Industry Competition Act 2006* (WICA). We believed that introducing competition would reduce pressure on existing potable water supplies by promoting the development of alternative sources of water such as recycling and stormwater harvesting. A key feature of the Act designed to promote this was the requirement that private sector operators must obtain 'sufficient quantities' of water from other than a metropolitan water utility.

Recent changes to the Act have removed this requirement, allowing private sector operators to simply obtain potable water from Sydney Water and distribute this to their customers. TEC did not support this change as we believed it undermined the impetus for development of alternative supplies. Nor do the changes invalidate the ongoing important public policy goal of conservation of potable supplies and reducing the environmental impact of supply.

Private sector operators who develop alternative supplies such as recycling or stormwater harvesting will contribute to the conservation of current potable water supplies and reduce the environmental impact of providing water services. In doing so they are contributing to meeting objectives such as those included in the metropolitan water plan.

The recent changes to the WICA have created a situation where some private sector operators may offer potable water obtained from Sydney Water in addition to water obtained from other sources (either potable or non-potable). We therefore believe that a distinction needs to be drawn between wholesale customers who simply distribute potable water obtained from Sydney Water and those who do so in addition to providing from other sources i.e. recycling, stormwater harvesting. Pricing for operators who provide water obtained from other sources should reflect the contribution such schemes make to easing pressure on current supplies and improving environmental outcomes.

RECYCLED WATER PRICES

TEC believes that recycled water customers should not pay higher total water charges for a given volume than if they were using potable water only. Such an arrangement discourages the use of recycled water and fails to recognise the benefits of recycling to the broader community i.e. reduced demand for potable water and reduced impacts for discharge of treated effluent.

We are concerned that Sydney Water's proposal to increase the price of recycled water from 80% of the drinking water price to 90% of the drinking water price (SWC, 2015) will reduce the attractiveness of recycled water for potential customers.

REFERENCES

Independent Pricing and Regulatory Tribunal (2011) "Review of prices for Sydney Water Corporation's water, sewerage, stormwater and other services", IPART.

Independent Pricing and Regulatory Tribunal (2015) "Review of prices for Sydney Water Corporation from 1 July 2016", IPART.

Sydney Water Corporation (2015) "Sydney Water pricing proposal to IPART, June 2015, SWC.

Total Environment Centre (2011) "Review of prices for Sydney Water Corporation's water, sewerage, stormwater and other services. Submission by Total Environment Centre to the Independent Pricing and Regulatory Tribunal", TEC.