



29 July 2011

Metropolitan Water Price Structure Review
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230
ipart@ipart.nsw.gov.au

To the Review Tribunal,

Review of price structure for metropolitan water utilities

The Property Council welcomes the opportunity to lodge this submission in response to the price structure review of metropolitan water utilities currently being undertaken. We appreciate the opportunity of being briefed by IPART staff on 25 July, which has provided clarification on some issues not addressed in the discussion paper.

The Property Council of Australia is the nation's peak representative for the property industry. Our 2,200 members are Australia's major investors, developers and owners of office, residential, retail and industrial assets worth over \$320 billion.

The NSW Division has over 600 members representing the entire property investment cycle. This review is therefore of acute interest to our members, and it is our aim to provide you with a supplementary submission with more detailed information and analysis of the proposals for non-residential buildings in the very near future.

At the outset, we are alarmed by the notion of equity presented in the discussion paper.

Page 31 of the discussion paper clearly states that currently "non-residential multi-tenancy properties (be they strata or single-owners multi-tenancies) attract a single common water meter service charge based on the size of the meter".

The idea that single-owner, multi-tenancy premises are underpaying service charges by 30-40%, as related by IPART staff at our meeting, cannot be so. In fact, the above quote confirms that current practices are equitably reflecting the needs, and therefore, services charges for individual premises.

Besides this clear case of logic, there are a few other factors which the discussion paper fails to account for. These are discussed below.

Building size

According to our reputable information, the largest strata-titled commercial building in Sydney CBD has almost 70 tenants over 17 floors and 13,000 sqm NLA.

The Voice of Leadership

LEVEL 1 11 BARRACK STREET SYDNEY NSW 2000
PH 02 9033 1900 - FAX 02 9033 1966 - ABN 13 008 474 422


**PROPERTY
COUNCIL**

By comparison, the largest commercial building in Sydney CBD has 31 tenants over 44 floors and 82,000 sqm NLA. In fact, there are 112 commercial office buildings in Sydney CBD larger in NLA than the largest strata-titled building.

Looking at the options presented in the discussion paper, and particularly at option 2 which suppose a linear relationship between the number of tenancies and water service charges, one can easily derive the ideals purported in the discussion paper cannot represent an equitable solution.

Based on building size alone, any comparison between strata and single ownership structures should be capped at 13,000 sqm NLA for commercial office buildings in order to attract a fair comparison.

The discussion paper also lacks any detail on the level sewerage services charges will increase to if the sewerage water usage charges decrease to the long-run marginal cost. Without a concrete figure in place, it is impossible to assess the impact proposed options on non-residential buildings.

Nature of tenancies

Further to option 2 of the discussion paper, the concept of charging 'like' tenancies the same service charges fails to reflect fundamental differences between tenancies.

The discussion paper fails to account several aspects of tenancy characteristics, including:

- Difference in tenancies' size within the one premises,
- The fluid nature of tenancy agreements, which change non-uniformly through time,
- Situations involving sub-lease arrangements, and
- Parts of buildings taken off-line for refurbishment.

The above list gives an indication of the issues which directly influence the number of tenancies in a commercial office building. Yet no consideration has been given to how these issues will be accounted for in practice.

Water efficiency

It is well recognised that the commercial property sector is driving innovative sustainability measures through increasing development of premium and a-grade buildings.

A handful of examples demonstrating excellence in sustainable design and performance include:

- 1 Bligh St, achieving a 6-star Green Star design rating and intending to operate at a 5-star NABERS rating. 1 Bligh St incorporates such water efficiency measures as black water recycling and rain water recycling;
- Commonwealth Bank Place, achieving a 6-star Green Star design rating and a 5-star NABERS rating operational rating, aiming to cut water use by over 90 percent through black water treatment and rain water harvesting; and
- The Ark, also achieving a 6-star Green Star design rating and a 5-star NABERS rating operational rating with such water management features as a grey-water recycling system.

During the meeting on 25 July, IPART staff noted that the review was undertaken in complete isolation to other issues that may be at play within water pricing. This is also reflected in the discussion paper at page 40 where discussion lends itself to price distortions due to companies in

Sydney inefficiently allocating resources to provide on-site sewerage treatment, so “costs are ultimately borne by the remaining customer base and the net effect.. is an increase in the total cost to society of collecting, transporting and treating sewerage”.

The design and subsequent water metering of these buildings is a complex matter. However the above statement referenced from the discussion paper, when taken in isolation, completely disregards the innovation and water efficiency that our members contribute to society. Further work is needed to ensure the concept of equity doesn't act to discourage investment in such technologies.

Conclusion

Overall, there is insufficient information in the discussion paper on the material impacts of options seeking to impose 'equity' in the non-residential sector. As such, we do not support the proposed pricing structures put forward, and our preference is 'Option 1: do nothing'.

Please do not hesitate to contact Inna Kiner, NSW Policy Advisor on 9033 1909 or ikiner@propertyoz.com.au for more details on the contents of this submission.

Yours sincerely



Glenn Byres
NSW Executive Director