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Submission to IPART

- **pricing review Metropolitan Water Agencies**
- **price path commencing July 2005**

Background

This IPART pricing review for urban water agencies is proceeding against the background of the NSW Government's Metropolitan Water Plan (MWP) announced late in 2004.

The Nature Conservation Council of NSW (NCC) sees the MWP as a welcome statement of direction in a difficult and complex area. NCC welcomes the Premier's statement in the MWP that a twelfth dam for Sydney is not the solution to our water problems. NCC supports the MWP's commitment to improved levels of demand management, re-use and river environmental flows. The proposal to access deep levels in the dams and increase their efficiency and deliverable volumes of water, is also supported.

Nevertheless, the MWP is a concern to NCC as one of the proposals is to increase the draw on the Shoalhaven River. This will continue and increase an unsustainable inter-valley transfer of water with considerable impacts on the environment.

The MWP is disappointing in its proposals for wastewater recycling/re-use as these can generally be described as 'too little, too late'.

There is concern too at the MWP's provision of environmental flows in the medium term which fall well short of the volume requirements indicated in

March 2004 by the final report of Hawkesbury Nepean River Management Forum "Water and Sydney's Future". The Forum suggested that environmental regimes for the Warragamba, Cataract, Cordeaux, Avon, Nepean and Shoalhaven Rivers would require releases totaling 127 GL per year, a lot more than is currently released from these Sydney storages for environmental flows, or proposed to be released under the MWP.

The coming period is an uncertain one due to a number of factors including the paucity of detail in the Metropolitan Water Plan, the length and severity of the drought and the possible effects of climate change. Concern is evident in IPART's seeking of comments on 'revenue volatility adjustment mechanisms' to assist the metropolitan water agencies to deal with the uncertainty and the possible effects on their balance sheets. We agree with the suggestion in IPART's Discussion Paper that the uncertainty "may generate additional cost pressures ..." and "... may put upward pressure on prices".

Comments relevant to Sydney Water Corporation

SWC identifies among 'key drivers' of its operating and capital expenditures rapid rates of population growth with an average of 40,000 people a year for next 30 years. NCC questions whether this rate of population growth over such a long period of time should be taken as a 'given' by Sydney Water, particularly as it depends on high rates of immigration. There is no national population policy or other formal statement at the appropriate level of government to support this population scenario.

IPART's Discussion Paper notes the importance of promoting the recycling/re-use of wastewater. In previous determinations IPART has set a zero sewer mining fee, with SWC providing access on a full cost recovery basis. These settings should be continued. SWC currently discharges some 400 billion litres of re-usable water into the ocean each year, equal to more than two-thirds of the annual volume drawn from SCA reservoirs. The Metro Water Plan is disappointing in its target of only 22 billion litres pa of wastewater re-use for Sydney by 2010.

We agree with the SWC submission that water and sewer charges in Sydney have fallen in real terms since the Tribunal starting regulating Sydney Water's prices in 1992/93. Further SWC reports that its expected real rate of

return on its regulated asset base in 2004/05 is 4.6%, well below the IPART's allowed 5.6% real return. To meet forecast expenditures and ensure a commercial return SWC states that it requires revenue of \$1.55 b in 2005/06, rising to \$1.67 b in real terms by 2008/09.

Part of the proposed increase could be achieved through a larger usage component or an inclining block tariff. NCC continues to strongly support the introduction of an inclining block tariff (see our submission to the 2004 Price Structure Review)

NCC generally supports the SWC proposal to raise the usage charge component of its bill and not the fixed charge component. SWC proposes to raise the usage charge from \$1 to 1.40 kl over the next four years so that total average residential customer's bill would increase by an average 60 cents per week (\$31 each year) with an overall increase of \$124 in real terms for the total bill by 2008/2009. This increase in price is seen as moderate, however it is important that there be a sufficient buffer and/or safety net for SWC's less affluent customers, pensioners, and for larger families.

NCC is concerned that insufficient attention may have been given in the SWC submission to the effects of targeted reductions in per capita water consumption on SWC revenues. There is also a concern that the proposed price rises will not be sufficient to drive the wastewater recycling/re-use market. These considerations could justify a higher price path.

NCC supports the SWC proposal for the base water price increase to be complemented by a stepped price increase for residential water use above 100kl a quarter to (at least) \$1.80 kl. This would send a further water conservation signal to around 20% of residential customers (more in summer) who use in excess of 100kl a quarter.

NCC supports measures to mitigate the impacts of higher water bills on those in the community less able to pay. These measures currently consist of subsidised retrofits for residential customers, rebates to pensioners (NSW Government funded), extended payment arrangements and vouchers for hardship relief (distributed by welfare agencies). We support the SWC proposals for further assistance consisting of targeted residential retrofits for large families (free for households assessed by welfare agencies to be in hardship) and assistance with the purchase of water efficient appliances. Assuming an inclining block tariff is introduced, NCC supports the granting

of a rebate on the total water and sewer bill for large families however the rebate and the amount should be conditional on acceptance of the residential retrofit and takeup of water efficient appliances over time. NCC also supports the extension of assistance schemes to tenants.

Comments relevant to Sydney Catchment Authority

NCC is disappointed that IPART has expressed the view (July 2004) in relation the wholesale price structure between SCA and SWC, that it is 'not convinced' that introducing a step price structure for the usage charge is the most appropriate way to remove the financial incentive on SWC to sell more water, enforce a cap on water extractions, or assist with the development of a secondary market in alternative water resources. NCC believes that a significant step in the wholesale price charged by SCA to SWC is the best way to achieve all of these objectives.

We understand that IPART's position is that if the Government decides to limit the amount of water that SWC can take from the SCA, IPART could consider whether a penalty should be introduced for breaching the cap as part of its licensing review for SWC. NCC suggests that in those circumstances a penalty should be applied. Any revenue generated by the penalty should be directed to the Demand Management Fund announced as part of the Metropolitan Water Plan.

NCC supports the SCA in seeking a review of the balance between the SCA's access charge and its usage charge and the setting the usage charge with reference to the SCA's long run marginal cost. IPART's Issues paper notes how the price structure review process has highlighted the need for reliable estimates of the long run environmental cost of water for each of the metropolitan water agencies and how such estimates should inform IPART's setting of prices.

NCC supports the SCA's suggestion that real price increases needed to generate required revenue be applied through the volumetric component of the charges to SWC, with the fixed component adjusted by CPI only.

NCC is concerned that the impact on operating expenditures of 'Sustaining the Catchments - Regional Plan for the drinking water catchments of Sydney and adjacent regional centres', which is to come into effect in 2005, may

have not been sufficiently taken into account in the SCA submission. If so, this could justify a higher level price path than proposed.

Questions concerning this submission should be directed to Peter Prineas, a member of the Nature Conservation Council Executive.

Yours sincerely,

Robert Pallin
Chairperson.