

1 Sydney Water's pricing proposal

Sydney Water has submitted its pricing proposal to IPART for new prices for its water, wastewater, stormwater drainage and other services to apply from 1 July 2016.

Sydney Water's pricing proposal at a glance

Sydney Water proposed a revenue requirement of \$9.7 billion over the 4-year period 2016-17 to 2019-20. This is \$600 million lower than the revenue allowed for in the 2012 Determination (\$10.3 billion), which covered the 4-year period from 2012-13 to 2015-16.

Sydney Water's proposed prices for major services

Sydney Water has proposed that its prices for water, wastewater and stormwater drainage services would either fall or remain unchanged in real terms in 2016-17 compared to current prices, and remain flat in real terms (ie, excluding inflation) over the 4-year period.

Table 1 Sydney Water's proposed prices for major services from 1 July 2016 (\$2015-16)

	2015-16 ¹	2016-17	2017-18	2018-19	2019-20
Water					
Usage charge (\$/kL)	2.29	1.97	1.97	1.97	1.97
Annual change		-13.9%	0.0%	0.0%	0.0%
Residential service charge	103.55	98.52	98.52	98.52	98.52
<i>Annual change</i>		<i>-4.9%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
20mm non-residential service charge	131.12 ²	98.52	98.52	98.52	98.52
<i>Annual change</i>		<i>-24.9%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Wastewater					
Usage charge (\$/kL)	1.10	1.10	1.10	1.10	1.10
Annual change		0.0%	0.0%	0.0%	0.0%
Residential service charge	612.10	582.34	582.34	582.34	582.34
<i>Annual change</i>		<i>-4.9%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
20mm non-residential service charge	1,047.74 ²	582.34	582.34	582.34	582.34
<i>Annual change</i>		<i>-44.4%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Stormwater					
Apartments and small non-residential	31.70	30.79	29.90	29.04	28.21
<i>Annual change</i>		<i>-2.9%</i>	<i>-2.9%</i>	<i>-2.9%</i>	<i>-2.9%</i>
Houses and medium non-residential	86.44	83.96	81.54	79.20	76.92
<i>Annual change</i>		<i>-2.9%</i>	<i>-2.9%</i>	<i>-2.9%</i>	<i>-2.9%</i>
Large non-residential	432.22	419.80	407.73	396.01	384.63
<i>Annual change</i>		<i>-2.9%</i>	<i>-2.9%</i>	<i>-2.9%</i>	<i>-2.9%</i>

Source: Sydney Water pricing proposal to IPART, June 2015, p 100 and Sydney water's annual information return, June 2015.

¹ 2015-16 prices were not available when Sydney Water finalised its pricing proposal. The prices for 2015-16 are Sydney Water estimates based on forecast inflation.

² Under the 2012 Determination, 20mm standalone non-residential customers paid the residential service charges. From 2016-17, Sydney Water's proposal will see them charged the same as other non-residential customers with 20mm meters.

Sydney Water's proposed impact on bills

Sydney Water indicated that under its pricing proposal, average annual residential water and wastewater bills would be:

- ▼ \$1,114 a year for customers with a free-standing house who use 220 kL of water a year. This is \$105 or 8.6% lower than the average bill for these customers in 2015-16.
- ▼ \$996 a year for customers with an apartment who use 160 kL of water a year. This is \$86 or 7.9% lower than the average bill for these customers in 2015-16.

Non-residential customers' bill impacts depend on their meter size and discharge factors as well as their water and wastewater usage. Sydney Water modelled the impact of its proposed prices on different types of non-residential customers, and found that approximately 43% would see a reduction of up to 10% on their annual bill in 2016-17 (in real terms). A small proportion (about 6.5%) of non-residential customers would experience greater reductions (35% to 39%).

Cost drivers

In its proposal, Sydney Water attributed its proposed reduction in its revenue requirement (and average annual water and wastewater bills) for the 2016 determination period to the following factors:

- ▼ the expected low interest rate environment and resulting decrease in its cost of capital
- ▼ realised and forecast savings in its operating and capital expenditure
- ▼ a reduction in its forecast bulk water purchase costs, due primarily to an expected decrease in WaterNSW's³ cost of capital, and
- ▼ an increase in its forecast customer water demand.

According to Sydney Water, just over 30% of the average savings it proposes to pass on to customers is driven by efficiency savings within its control, and just under 70% stems from external factors beyond its control. The single most important driver of these savings is the decrease in its forecast real Weighted Average Cost of Capital (WACC) from 5.6% to 4.6%, which accounts for 52% of the overall reduction in customer bills.

Sydney Water indicated that the proposed reduction in its revenue requirement will not affect its performance. It expects to maintain high customer service standards and its customer assistance programs, and continue to meet licence conditions in servicing rising levels of forecast demand and growth. It also expects to maintain its current Baa1 credit rating under the proposed prices and revenues.

³ Formally called the Sydney Catchment Authority. IPART is conducting a review of WaterNSW's charges concurrently with the Sydney Water price review.

2 Issues for stakeholder comment

List of issues in the Issues Paper

The following table lists the issues raised in the Issues Paper and provides a brief note of Sydney Water's proposal and of IPART's initial position on the issue.

	Sydney Water's proposal	IPART's initial position
1. What should be the length of this determination period?	A 4-year determination period, from 1 July 2016 to 30 June 2020.	We agree with Sydney Water.
2. Should the determination periods of regulated utilities align? If so, across which utilities and why?		
3. Are Sydney Water's proposed operating costs over the 2016 determination period efficient, taking into account drivers of this expenditure and water management outcomes achieved?	<p>Around \$5 billion over the 4-year period, split into three main components:</p> <ul style="list-style-type: none"> ▼ core operating expenditure (\$3.1 billion or 62%) ▼ Build Own Operate (BOO) water filtration costs (\$354 million or 7%), and ▼ bulk water costs (\$1.6 billion or 31%) of the total operating expenditure. 	We will engage an expert consultant to review the efficiency of the proposed expenditure. This will involve examining whether this expenditure represents the best way of meeting the customer's need for the relevant services.
4. What scope is there for Sydney Water to achieve efficiency gains over the 2016 determination period?		
5. Are Sydney Water's proposed bulk water costs from WaterNSW reasonable?	<p>Sydney Water has assumed:</p> <ul style="list-style-type: none"> ▼ Purchasing a higher volume of water from WaterNSW due to the 4% increase in water consumption over the period. ▼ WaterNSW forecast prices will be lower than in 2015-16, driven by a lower cost of capital. ▼ Sydney Desalination Plant (SDP) will remain in water security shutdown mode, so there is no impact on WaterNSW forecast prices. 	We are reviewing WaterNSW's prices concurrently with Sydney Water's prices. We expect to allow Sydney Water to recover the cost of all WaterNSW water charges in accordance with our review of WaterNSW's prices.

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6. How should bulk water costs associated with pumping from the Shoalhaven River be treated over the 2016 determination period, noting that our preference is to continue to pass these through on an expected cost basis?	Include an expected cost for pumping from the Shoalhaven system of around \$2.1 million per year, to be recovered in bulk water costs. Under the 2010 Metropolitan Water Plan, WaterNSW must start pumping from the Shoalhaven River when Sydney's dam levels fall to 75% and continue until they rise above 80%.	The proposal is consistent with our treatment of Shoalhaven pumping costs over the 2012 determination period. Our preference is to maintain this treatment over the 2016 determination period, given the relatively small size of these costs to Sydney Water. (However, for our concurrent review of WaterNSW's prices, our preliminary position is to include a cost pass through mechanism for Shoalhaven pumping costs in its bulk water prices to Sydney Water).
7. If a Raw Water Quality Incentive Payment is included in WaterNSW's prices to Sydney Water, is our proposal not to include these payments in Sydney Water's allowance for bulk water costs from WaterNSW appropriate?	WaterNSW and Sydney Water signed a Raw Water Supply Agreement in 2013. This includes a mechanism for water quality incentive payments (the Raw Water Quality Incentive Payment) of up to \$1 million annually from Sydney Water to WaterNSW, depending on the quality of water delivered by WaterNSW to the Prospect Water Filtration Plant.	We support the Raw Water Quality Incentive Payment and inclusion of the mechanism in WaterNSW's prices to Sydney Water. We expect incentive payments made to WaterNSW to be fully offset by savings in treatment costs. Therefore, we see no need to adjust Sydney Water's bulk water costs for these payments.
8. Should we continue to pass through variations in SDP's actual fixed costs because of changes to its operating modes through to water service charges at a 1-year lag?	Sydney Water has assumed: <ul style="list-style-type: none"> ▼ SDP will remain in water security shutdown mode, so Sydney Water will pay its fixed charges only. ▼ SDP's fixed charges will be as determined until 1 July 2017, and reduce in line with the RAB with no allowance for further capital expenditure. ▼ Continue pass through of SDP's actual fixed costs at a 1-year lag. 	We agree with assuming SDP will remain in water security shutdown mode. However, we will use our best estimates of SDP's costs in water security shutdown mode beyond 2016-17, based on SDP's determined prices for 2016-17. We intend to provide for Sydney Water to recover actual SDP costs incurred through the cost pass through mechanism at a 1-year lag.
9. Is Sydney Water's past capital expenditure over the 2012 determination period prudent, taking into account drivers of this expenditure and service outcomes achieved?	Over 2012-16, Sydney Water forecasts it spent \$2.6 billion on capital expenditure, which is \$199 million (or 7%) less than allowed by IPART. The \$199 million saving in past capital expenditure came from lower than forecast spending on water assets. This saving was partly offset by higher than forecast stormwater capital expenditure.	We will engage an expert consultant to conduct: <ul style="list-style-type: none"> ▼ a strategic review of Sydney Water's long-term investment plans and asset management systems and practices, and ▼ a detailed review of the prudence of Sydney Water's past capital expenditure and the efficiency of its forecast capital expenditure.

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10. Is Sydney Water's forecast capital expenditure program over the 2016 determination period efficient, taking into account expenditure drivers, scope for efficiency gains, and proposed water management outcomes?	Sydney Water forecasts that it will spend \$2,764 million on capital expenditure over the four years to 2019-20. The main drivers of forecast expenditure are existing standards (renewing or improving existing assets, which is 64% of forecast expenditure) and growth (25% of forecast expenditure).	We will engage an expert consultant to: <ul style="list-style-type: none"> ▼ conduct a strategic review of Sydney Water's long-term investment plans and asset management systems and practices, and ▼ evaluate that the capital programs are based on a robust evaluation / justification process, and are delivered efficiently.
11. Is Sydney Water's proposed expenditure on IT (including its customer information system) efficient?	Sydney Water proposed to invest \$328 million in IT over 2016-20. Over \$160 million is to replace a 28-year old billing system.	We will engage an expert consultant to specifically look at information technology expenditure.
12. Is Sydney Water's proposed expenditure on assets to service growth efficient?	Sydney Water proposed to spend \$684 million on capital expenditure to service growth.	We will engage an expert consultant to specifically look at growth expenditure.
13. Is Sydney Water's proposed capital expenditure on projects relating to its Environment Protection Licences, including wet weather overflow abatement, efficient?	New and revised Environment Protection Authority standards require a \$158 million investment, mainly to reduce wastewater discharges to waterways and manage wet weather overflows.	We will engage an expert consultant to specifically look at expenditure related to environmental regulations.
14. What is the appropriate regulatory treatment of asset disposals?	Sydney Water argues that removing 100% of asset sales value from the asset base gives agencies no incentive to manage their assets efficiently. Sydney Water proposed a 50:50 sharing arrangement between Sydney Water and customers to address this. Sydney Water also proposed that a capital gains tax allowance be incorporated into the treatment of asset sales	Our view is to remove the sold asset's regulatory value from the asset base and allow the business to pay any tax obligations from the profit it retains. We propose that the regulatory value would be based on the ratio of the asset base to depreciated replacement cost at the time the asset base was established multiplied by the sale value of the asset.
15. What is the appropriate regulatory treatment of finance leases?	Sydney Water's preference is to include all finance lease costs in operating expenditure. However, it noted IPART's preferred treatment and has proposed to include the value of all finance lease assets in the asset base. All pure operating costs associated with delivering the associated services would be included in operating expenditure.	Our preferred position is to include the value of finance lease assets in the asset base. We will further investigate the appropriate value of finance lease assets to be added to the asset base and the appropriate associated asset lives for those assets.

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16. What is an appropriate rate of return on Sydney Water's assets?	Sydney Water proposed for the 2016 determination period a 40:60 weighting between short-term (40-day average) and long-term (10-year average) debt when estimating the cost of debt. Sydney Water would like the equity beta to be given additional consideration.	We do not intend to change our short- and long-term debt mix used to calculate the cost of capital. We will investigate the value of the equity beta and other input parameters used to calculate the cost of capital during the review.
17. Is Sydney Water's proposed allowance for regulatory depreciation, including the assumptions (eg, asset values and asset lives) underpinning this allowance, reasonable?	Depreciation comprises about 13% of Sydney Water's proposed revenue requirement over the four years to 2019-20. This is a significant increase over the previous period, due to the inclusion of finance lease assets for the first time and significant capital expenditure on short-lived assets (ie, IT and the billing system). Sydney Water proposed using straight-line depreciation and provided asset lives for all assets, including finance lease assets.	We propose to continue to use the straight-line depreciation method to calculate Sydney Water's return of capital. This means that the value of an asset is recovered evenly over its assumed life. The standard asset life for electronic assets (including IT) is 10 years. We will investigate the asset life of the proposed new billing system in particular, which may have a significantly longer economic life.
18. Are there any significant similarities or differences between the regulated sectors identified by Sydney Water (which have adopted the proposed incentive mechanisms and pricing flexibility) and the NSW urban water sector? What are the implications of these similarities or differences for Sydney Water's proposal?		
19. Does Sydney Water's proposal reflect an appropriate selection of incentive based approaches and mechanisms?		
20. How successful have incentive mechanisms and pricing flexibility been in other jurisdictions or sectors? What are the key determinants of success or failure?		
Efficiency benefit sharing scheme (EBSS)	Sydney Water has proposed an EBSS for operating and capital expenditure (opex and capex). These mechanisms would allow Sydney Water to hold the rewards of efficiency gains and penalties of efficiency losses for a fixed number of years regardless of when they occur.	We are open to considering a modified version of Sydney Water's proposed opex EBSS – one that equalises the financial incentive to achieve permanent efficiency savings over time while limiting the potential for gaming (ie, cost shifting at the expense of customers).
21. Is our modified EBSS likely to remove the opportunity to game, while maintaining the incentive to achieve permanent efficiency savings? Are there alternative modifications to the EBSS that better achieve these objectives?		
22. What is an appropriate holding period for permanent efficiency savings achieved by Sydney Water, taking into account observed outcomes in competitive markets and potential benefits to customers?		
23. Would an opex EBSS likely result in an increase in regulatory complexity, reduction in transparency or increase in administrative costs? If so what could be done to minimise these effects?		
24. Are there complements or alternatives to an opex EBSS, such as productivity benchmarking, that can drive further efficiency gains?		
25. What are the arguments for and against a capex EBSS? How would it deliver long term benefits to customers?		
26. Can the capex EBSS be modified to remove incentives to over forecast, while maintaining incentives to achieve permanent efficiency savings?		

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27. Are there complements or alternatives to a capex EBSS to drive further efficiency gains in capex?		
Weighted average price cap (WAPC)	Sydney Water proposed a WAPC that would allow Sydney Water flexibility to (a) charge different customers different prices and (b) vary prices during the regulatory period. This pricing flexibility would be limited by a cap placed on how much the weighted average price is able to increase and guided by a pricing strategy and principles.	We are open to introducing a WAPC to large non-residential customers, from Year 2 of the next regulatory period. We are also considering an option where large non-residential customers would have the choice to opt in to alternative prices offered by Sydney Water under the WAPC or to remain with the prices set by IPART for each year.
28. What can we learn from the experience of other jurisdictions and regulated industries with WAPCs?		
29. How can a WAPC be used to set more cost-reflective prices or enhance value to customers?		
30. Should a WAPC apply at first only to large non-residential customers? Should it apply to both water and wastewater services?		
31. What are suitable pricing principles and a pricing strategy to accompany a WAPC? In particular: <ul style="list-style-type: none"> – What should be the relevance and role of long-run marginal cost pricing under a WAPC? – Should the WAPC be used to transition away from postage stamp pricing? 		
32. What side constraints would we need to impose on the operation of the WAPC? Would allowing customers to opt out of regulated prices and opt into prices set by Sydney Water lead to better outcomes for customers?		
33. Are Sydney Water’s forecasts of water sales and customer numbers reasonable?	Total water demand is expected to rise 4% from 523 GL to 544 GL over the next price path. Sydney Water expects metered demand to increase by 4.3% - ie, 5.7% from residential demand and 0.1% from non-residential demand. Sydney Water forecasts total residential growth to be around 96,000 dwellings and non-residential growth to be about 4,168 properties.	Since we conducted an extensive review of Sydney Water’s demand model in the last period, and given the updates made, we are inclined to accept Sydney Water’s demand estimates (water sales and customer numbers). We intend to review Sydney Water’s forecasts of non-revenue water to ensure that billed metered customers pay for only what is necessary.
34. What regulatory mechanism, if any, should be used by IPART to account for demand volatility?	Sydney Water has not proposed a demand volatility mechanism. However, it has noted that there is risk in forecasting future demand.	We are inclined to continue including provision for a demand volatility adjustment mechanism to mitigate the potential for an over- or under-recovery of revenue resulting from differences between forecast and actual water consumption.

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35. Is Sydney Water's proposed approach to forecasting chargeable wastewater volumes (including its assumptions) reasonable?	<p>Sydney Water used quarterly metered water consumption data over four years.</p> <p>Sydney Water assumed no changes to the discharge allowance or discharge factors over the 2016-2020 period.</p> <p>Sydney Water indicated that forecast growth in chargeable wastewater is very low.</p>	<p>We consider Sydney Water's bottom-up approach of modelling chargeable wastewater volumes as comprehensive.</p> <p>Our view would be to continue to reduce the discharge allowance for non-residential customers to 150 kL per year, as proposed in the 2012 Determination. This would ensure residential and non-residential customers are treated equally.</p>
36. Is Sydney Water's proposal to rebase water and wastewater service charges to a 20mm meter equivalent reasonable, in terms of its impacts on different customer groups?	<p>This involves deeming all residential dwellings (regardless of type) to have a 20mm meter and changing the current base for non-residential meter-based charges to a 20mm (from 25mm) meter.</p> <p>Sydney Water noted that it is a simple price structure for customers to understand and for Sydney Water to administer.</p>	<p>Our preliminary view is to accept Sydney Water's proposal to rebase water and wastewater service charges on a scale referenced to a 20mm meter service charge, and deem all residential dwellings a 20mm meter to ensure flats and houses are still charged the same service charge.</p> <p>Before making any changes to our price structures, we will model the impacts on different customer groups. We will also consider stakeholder comments on this matter.</p>
37. Should the discharge allowance for non-residential customers remain at 300 kL a year as per Sydney Water's proposal, or be reduced to 150 kL to align with the average level of discharge for residential customers?	<p>Wastewater usage charges apply to non-residential customers who exceed a specified discharge allowance.</p> <p>Sydney Water proposed to fix the discharge allowance at the current level of 300 kL per year.</p> <p>Sydney Water indicated that lowering the discharge allowance to 150 kL per year would result in a 29% increase in the number of customers billed an explicit wastewater usage charge and produce a 6% increase in chargeable volume.</p>	<p>Our view would be to continue to reduce the discharge allowance for non-residential customers at 150 kL per year, as proposed in the 2012 Determination. This would remove cross subsidies:</p> <ul style="list-style-type: none"> ▼ small businesses would no longer be subsidising medium to large businesses, and ▼ small businesses would be charged on a consistent basis with residential customers. <p>In addition, the costs associated with a deemed 150 kL per year discharge allowance for residential and non-residential customers should be explicitly added to their service charges as the final step in calculating these charges. This would ensure that non-residential customers with larger meter connections do not pay more than their share of costs.</p>

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38. Are Sydney Water's proposed changes to charges to joint service arrangements appropriate?	<p>Sydney Water proposed to change the treatment of joint services of unrelated non-residential multi-premises. Sydney Water proposed to apply normal meter-based water and wastewater charges to metered non-residential multi-premises and the second unmetered (or dependent) multi-premises would receive a 'base' water and wastewater service charge determined by IPART.</p> <p>Sydney Water indicated that this change will simplify the charging arrangements for joint services and recover an additional \$0.4 million a year.</p>	<p>We will consult stakeholders and consider this in further detail.</p> <p>It is not clear that non-residential multi-premises joint service customers sharing one connection impose greater costs than other non-residential multi-premises using the same size connection. This proposed change would have a minor impact on Sydney Water's revenue and since it does not appear to be simpler than the current pricing arrangement we question the need for change.</p>
<p>39. Should dual occupancies be charged:</p> <ul style="list-style-type: none"> ▼ a single water service charge and a wastewater service charge in line with Sydney Water's proposal; or ▼ as two distinct properties as is currently the case, where both the main dwelling and the secondary dwelling each attract a water service charge and a wastewater service charge? 	<p>A dual occupancy is where the property owner creates a second dwelling which typically has its own entrance and facilities. The two dwellings are linked by the owner and cannot be independently sold.</p> <p>Sydney Water proposed to apply only one water and one wastewater service charge to each dual occupancy property. Sydney Water estimated this change would reduce revenue by \$9.7 million per year. This revenue would have to be recovered from all other customers; around \$5 to each customer's annual bill.</p>	<p>We will need to consult other stakeholders and consider this in further detail.</p> <p>Our pricing principle is that customers imposing similar costs on Sydney Water's system should pay similar charges.</p> <p>We estimate that if Sydney Water charged dual occupancies as two separate properties, its proposed water and wastewater service charges would decrease by about 5.2% in 2016-17, rather than 4.9% (assuming all other factors were held constant).</p>
40. What is the most appropriate name for the current fixed 'service charge'?	<p>Sydney Water's customer engagement revealed confusion around the meaning of the service charge. Customers were confused about what service was actually being provided, which suggests that the name of the charge does not best reflect the nature of the charge.</p>	<p>Our preferred option is 'availability charge', as this seems to best indicate that the fixed component of a bill represents the customers' ability to use the system (ie, that they are connected to the system), rather than actual use of the system.</p>
41. Is Sydney Water's proposed water usage charge of \$1.97 per kL reasonable? If so, why?	<p>Sydney Water's proposed water usage charge of \$1.97 per kL represents a decrease of \$0.32 per kL (or 13.9%) to the current usage charge.</p> <p>Sydney Water was more influenced by customer research than by its estimate of the long run marginal cost of supply (\$1.16 per kL).</p>	<p>We will make a decision on the water usage charge after doing further analysis and taking into account stakeholder feedback.</p>

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42. Should the water usage charge be set with reference to the long-run marginal cost of water supply, or should greater weight be placed on customer preferences?	<p>Due to uncertainty Sydney Water modelled a range of LRMC estimates under a variety of scenarios. It found the LRMC ranged from \$0.97 per kL to \$3.10 per kL, and the best estimate was \$1.16 per kL.</p> <p>Sydney Water’s proposed usage charge (\$1.97 per kL) is about 70% greater than this best estimate.</p>	<p>Our general inclination is to set the water usage charge with reference to the LRMC of water supply to encourage efficient water consumption. It sends customers an efficient, long-run scarcity signal, which helps convey the long-run cost implications of water usage.</p> <p>Our preliminary modelling has produced LRMC price estimates that are lower than the current usage charge.</p>
43. Should Sydney Water’s water usage charges vary to make drought-response costs more transparent to end-use customers (ie, by reflecting the per kilolitre cost of desalinated water if Sydney Desalination Plant is activated)?	<p>Sydney Water proposed to recover the additional variable costs it incurs if SDP is operating through the water usage charge. It proposes to amend the current SDP cost pass through mechanism so it can recoup these variable costs as they occur, rather than at a one-year lag though water service charges (as is currently the case). Sydney Water used feedback from its customer engagement initiative to develop this proposal.</p>	<p>We agree with Sydney Water’s proposal to increase the water usage charge to recover the additional variable costs it incurs if SDP is activated. By varying the usage charge to reflect the per ML cost of desalinated water if SDP is activated, the proposal will make the drought-response costs more transparent to end-users.</p>
44. Are Sydney Water’s proposed water service charges reasonable?	<p>Sydney Water’s proposed residential water service charge would decrease by 4.9% in 2016-17 to \$98.52 and remain constant in real terms.</p>	<p>Service charges are usually calculated to recover the utility’s revenue requirement net of revenue received from usage charges (with water usage charges usually set with reference to the long run marginal cost of supply).</p> <p>However, Sydney Water has adopted different approaches to calculate its proposed water service and usage prices, with the service charge set at a specific level (to achieve a specific percentage reduction) and the usage charge based primarily on customer research and not on our preferred approach of long-run marginal cost. Therefore, we will need to do further analysis before reaching a position on whether its proposed water service charges are reasonable and appropriate.</p>

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45. Is Sydney Water's proposal to maintain the current wastewater usage charge applied to non-residential customers of \$1.10 per kL reasonable?	Sydney Water has proposed maintaining the current non-residential wastewater usage charge of \$1.10 per kL in real terms over the 2016 determination period.	Give the Government's policy of postage stamp pricing, we consider short run marginal cost to be the most appropriate basis for setting the wastewater usage charge. We will consider whether the current level of \$1.10 per kL is appropriate.
46. Should residential customers pay a wastewater usage charge?	Sydney Water did not propose to introduce residential wastewater usage charges. However, it noted that there could be a strong case that the principles supporting a water usage charge apply equally to the wastewater service.	We will consider this issue in our review depending on feedback from Sydney Water and stakeholders. A residential usage charge may more closely reflect the user pays principle and give customers greater control of their bills.
47. Are Sydney Water's proposed wastewater service charges reasonable?	Residential wastewater service charges are proposed to decrease by 4.9% in 2016-17 and remain constant in real terms thereafter. Non-residential customers currently on a meter-based charge ⁴ would experience significant reductions in their water service charges of about 44.4% in 2016-17 and remain constant in real terms.	Sydney Water's proposed method for calculating the wastewater service charge is consistent with our typical approach. However, decisions regarding the wastewater usage charge and discharge allowance threshold will impact on the service charge.
48. Are Sydney Water's proposed stormwater service charges reasonable?	Sydney Water's proposed stormwater drainage charges decrease by 2.9% in each year of the determination period.	Our expenditure consultants will review Sydney Water's proposed capital expenditure on stormwater assets and the efficient profile for this expenditure over the medium term. This will guide us in the final prices we set.
49. Should stormwater charges transition further towards strict area-based charges?	Sydney Water has proposed that stormwater charges continue to be set based on a customer's land area.	Our preferred position is to continue to set stormwater drainage charges based on land area. We question whether the transition towards area-based charges is complete and, particularly, whether there is further scope for future costs to be recovered on a more cost-reflective or equitable basis.
50. Are Sydney Water's proposed changes to trade waste charges reasonable?	Sydney Water proposed to make only minor changes to its trade waste charges.	Our preferred position is to accept Sydney Water's proposed trade waste charges.

⁴ That is all non-residential customers with meter sizes larger than 20mm or with multiple 20mm meters.

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51. Is Sydney Water's proposed late payment fee reasonable?	Sydney Water proposed to introduce a cost-reflective late payment fee of \$4.10 or interest accrued to overdue bills (whichever is the greater).	Our preliminary view is that Sydney Water's proposal appears to comply with the provisions of its operating licence. However, we seek comments from stakeholders on whether Sydney Water's proposed fee is cost reflective.
52. What type of customers should be exempt from late payment fees?	To protect customers experiencing financial hardship, Sydney Water indicated that it will apply the same exclusions contained in the National Energy Consumer Framework (NECF) with some additional provisions.	We will further consider who should pay the fee if it is approved, and whether Sydney Water's exclusions are appropriate.
53. Are Sydney Water's proposed changes to its miscellaneous and ancillary charges reasonable?	Sydney Water proposed a range of minor adjustments to its existing miscellaneous and ancillary charges.	Our preliminary position is that most of Sydney Water's proposed adjustments appear reasonable, and in line with previous efforts to reduce administrative costs and simplify the application process for customers. We intend to consider the rationale and cost-reflectiveness of the new charges proposed, as well as its proposals for certain charges to be unregulated.
54. Is the proposed level of the Rouse Hill stormwater drainage charge reasonable?	Sydney Water has proposed to maintain the stormwater drainage charge for Rouse Hill (which recovers the operating costs of the Rouse Hill stormwater system) in real terms at \$140.33 per year.	In order to determine whether the charge remains cost-reflective, we intend to review how actual operating costs have measured up against Sydney Water's original forecasts.
55. Who should pay the additional costs of land acquisition for the stormwater drainage system in Rouse Hill?	The land charge is levied upon new properties in Rouse Hill and recovers Sydney Water's land acquisition costs for the Rouse Hill stormwater system. Sydney Water has proposed to maintain the charge at \$249.97 per year in real terms. To do this, it has proposed to shift \$17.1 million in unforeseen land acquisition costs to the wastewater RAB in 2016-17, to be recovered by all wastewater customers.	Our preliminary position is that the additional land acquisition costs should not be passed through to all wastewater customers. If the costs of land acquisition for the Rouse Hill stormwater drainage system are not borne fully by new Rouse Hill residents, Sydney Water should bear those costs.
56. Is the \$0.30 per kL discount used to calculate the unfiltered water charge still appropriate?	Sydney Water proposed to maintain the current approach of charging unfiltered water at a \$0.30 per kL discount to drinking water.	We consider there is merit in reviewing whether this discount requires revision or updating.

	Sydney Water’s proposal	IPART’s initial position
57. Should the 180 kL per year of deemed usage embedded in the unmetered water charge increase to reflect the current average residential consumption of 200 kL per year or the current average consumption for metered single houses of 220 kL per year?	Sydney Water proposed maintaining the current approach to charging unmetered properties. This includes using a deemed water usage of 180kL per year.	We consider it appropriate to update the usage component of the unmetered charge to reflect current usage patterns.
58. Should the methodology used to determine minor service extension charges be changed? If so, how and on what basis?	Sydney Water’s proposal does not address the minor service extension charge.	We consider the existing methodology for calculating the minor service extension charge remains appropriate, as it mirrors the formula for calculating developer charges.
59. What is the most appropriate methodology or basis for setting wholesale prices?	Sydney Water proposed wholesale prices should be based on the relevant retail price minus avoidable costs as this ensures the maintenance of postage stamp pricing to Sydney Water’s retail customers.	At this stage, our preferred approach is for wholesale prices to be based on the retail price minus avoidable costs. This approach creates the best signals for efficient new entry and competition under retail postage stamp pricing.
60. What is a reasonable retail-minus avoidable costs price cap to apply to all wholesale customers?		
61. Should wholesale prices be regulated under the WIC Act, IPART’s price determination or a combination of both?	Sydney Water proposed the following alternatives: <ul style="list-style-type: none"> ▼ IPART could determine a wholesale price (or price methodology) to foster greater certainty in the market place, which is good for customers and water utilities, or ▼ Sydney Water could progress its voluntary access undertaking under WIC Act. 	Our view is that wholesale customers should ultimately be regulated through the WIC Act’s access regime. However, we may set temporary wholesale prices in this determination, to apply until a voluntary access undertaking covering wholesale services has been approved by IPART or prices have been agreed under the access regime of the WIC Act.
62. Is Sydney Water’s proposed recycled water price of 1.77 per kL (se at 90% of it proposed drinking water charge) reasonable for its mandated schemes?	Sydney Water proposed a recycled water usage charge of \$1.77 per kL for its mandated recycled water schemes.	We intend to monitor Sydney Water’s recycled water prices in accordance with our pricing guidelines for recycled water. Accordingly, it may be necessary for different schemes to charge different prices.
63. Should all of Sydney Water’s mandated recycled water schemes charge the same recycled water price, regardless of their use of potable top-up water?	Sydney Water noted in its proposal that potable top-up sales to recycled water customers are included in its operating expenditure.	We will ensure that recycled water customers pay for potable top-up volumes, and not the broader customer base.

3 Submissions to the Issues Paper

IPART is seeking stakeholders to share their views on a number of issues regarding the review which are detailed in the [Issues Paper](#) and summarised in the table above.

Submissions are due by 5 October 2015.

We prefer submissions via our online [form](#).

You can also send comments by fax to (02) 9290 2061, or by mail to:

Review of prices for Sydney Water

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

Unless they are identified as confidential, we plan to put all submissions on our website soon after the closing date for submissions.