

## Summary of proposal

### Introduction

As a regulated utility, WaterNSW's prices and revenue are regulated by the Independent Regulatory and Pricing Tribunal (IPART). IPART is an independent NSW Government agency that reviews prices for a range of services in NSW which include water, gas, and public transport. Prices are generally reviewed every three to four years.

IPART will shortly commence a review of WaterNSW's prices for the Greater Sydney area to be applied from 1 July 2016. As part of this process, WaterNSW is required to provide a pricing submission document outlining its proposed revenue requirement and any proposed changes to regulatory framework it wishes to apply.

This document provides a high level summary of WaterNSW's pricing proposal for the next regulatory period. For more detail, please refer to WaterNSW's price submission document.

### Who is WaterNSW?

WaterNSW is a NSW State-owned Corporation formed on 1 January 2015 under the WaterNSW Act 2014 from the merger of Sydney Catchment Authority and State Water Corporation. We are Australia's biggest water supplier and the major supplier of raw water in NSW.

We deliver raw water from our 42 large dams, pipelines and the State's rivers and ensure that the water we supply is reliable and, where that water is to be used by end use customers for drinking, that it is safe.

We also develop water infrastructure solutions to water supply and reliability issues and then plan, develop, operate and maintain that infrastructure. We also promote improvements in achievable water quality standards and contributes to the protection of public health and the environment through enhanced catchment protection practices in declared catchments.

### How long will the next regulatory period be?

WaterNSW is proposing a four year regulatory period, covering the period between 1 July 2016 to 30 June 2020.

### What region does this price submission cover?

The proposed prices in the submission apply to WaterNSW's customers in the Greater Sydney region, the area operated by the former Sydney Catchment Authority. Our customers in the Greater Sydney region include Sydney Water, Wingecarribee Shire Council, Shoalhaven City Council and Goulburn-Mulwaree Council. We also provide water supply to some 60 other smaller customers. Figure 1 below shows WaterNSW's drinking catchment area in the Greater Sydney region.

Figure 1. WaterNSW's drinking water catchment areas in Greater Sydney



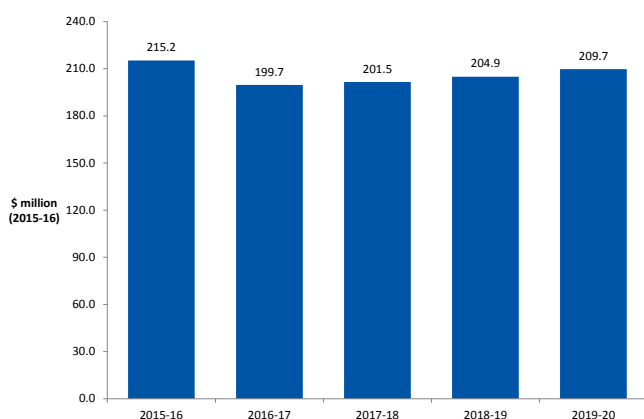
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### What is happening to raw water charges?

#### Lower raw water prices

Under our proposal, the cost of raw water to our customers will reduce in real terms. In 2016-17 the real cost of raw water supply will be more than 7% lower than that in 2015-16. Despite WaterNSW planning to deliver a significantly larger capital investment program compared to the last 4 years, real prices in 2019-20 will still be around 3% lower compared to 2015-16.

Figure 2. WaterNSW's proposed revenue requirement for 2017-2020



These cost reductions are made possible through lower operating costs from operating efficiency reforms driven by the new WaterNSW management team, and lower funding costs from the financial markets. We are confident our proposal represents the least cost solution in providing services to our customers.

#### Main features of our price proposal

- **Reduced cost of raw water.** Our proposed prices will see raw water cost to our largest customer, Sydney Water, fall by 3% in real terms by 2019-20. Revenue from all our Council customers combined will fall by around 22%.
- **Lower operating expenditure.** We are proposing an operating expenditure of around \$406 million for the regulatory period. Our proposed operating expenditure in 2019-20 will be 3% lower in real terms compared to 2015-16.
- **Modest capital program.** We are proposing to invest \$373 million in capital works over the 4 year regulatory period. Our capex program will be focussed on asset reliability and to ensure Sydney's drinking water supply security in the long term.

- **Introduction of two incentive based regulatory mechanism.** We are proposing to introduce an operating expenditure only Efficiency Benefits Sharing Scheme and include the Raw Water Quality Incentive Payment Scheme. These schemes improve incentives for WaterNSW to deliver sustained cost savings and improve the quality of service to our customers.

#### Price structure

- **Sydney Water.** We are not proposing to change the existing price structure for Sydney Water. For the next regulatory period, we propose to recover 80% of our revenue from Sydney Water via the fixed charge and 20% via the variable charge.
- **Council customers.** For our Council customers, we are proposing to align their price structure with Sydney Water so that 80% of revenue is recovered from fixed charges. The higher fixed charge recognises the highly secure nature of water availability to Councils and takes into account the relative stability in water demand.
- **Raw and unfiltered water customers.** We are not proposing any changes to the price structure of our raw and unfiltered water customers.

### What is the impact of our proposed prices on customers?

#### Sydney Water end use customers

We estimate that our proposed prices will contribute to the overall reduction of prices proposed by Sydney Water.

\$, 2015-16	2016-17	2017-18	2018-19	2019-20
Estimated impact on end Sydney Water's end user	-9.65	-8.77	-6.98	-4.56

#### Councils

Prices to our Council customers will fall in 2016-17 and will be held constant in real terms for the remainder of the determination period.

	2016-17	2017-18	2018-19	2019-20
Price impact on Council customers	-22%	0%	0%	0%

Note: This is the impact to the Council customers as an aggregate group. Impact on individual Councils will vary.

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### Will service standards change in the next determination period?

The lower prices we are proposing will not lead to a reduction in service quality. WaterNSW remains committed to provide uninterrupted supply of the highest possible quality water to our customers.

We will continue to promote improvements in achievable water quality standards and contribute to the protection of public health and the environment through enhanced catchment protection practices in Sydney's drinking water catchments.

Our proposed capital investment program over the 4 year regulatory period will ensure our assets continue to provide reliable service and sufficient supply to meet Sydney's growing population and include projects to ensure water security to cater for growing water consumption.

### Consultations

We have consulted opening with our customers and sought to communicate the rationale behind our proposal during the preparation of this submission.

We look forward to continue our engagement with all stakeholders throughout the determination process and encourage you to participate in the IPART review process.

### What happens next?

WaterNSW has lodged its submission with IPART on 30 June 2015. The submission will be available publicly on IPART's website. The following table provides a high level timetable on the review process.

Activity	Time
Water NSW's pricing proposal due	30 June 2015
IPART releases Issues Paper	7 September 2015
Submissions in response to Issues Paper due	5 October 2015
Public Hearing	10 November 2015
IPART releases Draft Report and Determination	March 2016
Submissions in response to the Draft Report due	April 2016
IPART releases Final Report and Determination	June 2016
New prices take effect	1 July 2016

Source: IPART Fact Sheet – WaterNSW Greater Sydney price review, 19 June 2015