# Submission on the Sydney Water Pricing Proposal

Thank you for the opportunity to comment on the Sydney Water Pricing Proposal.
Page 5 of the Issues paper lists two key issues that have important implications for all water users in NSW: 1) environmental sustainability and 2) fair prices and cost-of-living impacts.

## These proposals aren't environmentally sustainable, don't comply with best practice pricing

In 2007, the NSW Government's *Best-Practice Management of Water Supply and Sewerage Guidelines* advised (p8) *"**Residential water usage charges must be set to recover at least 75% of residential revenue.**"*

The above guideline was presumably intended to provide the best possible outcome for both the environment and the entire community, noting that the cost of water-saving measures (e.g. smart meters, water-efficient garden watering systems) is often much less than building new infrastructure.

**In 2030, residential usage charges will be much less than 75% of revenue – i.e. not best practice!**

## These proposals unfairly impose a disproportionate burden on single-person households

**Table 1. Proposed charges, single-person household using 137 litres of water per day**

| | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | %increase |
|---|---|---|---|---|---|---|---|
| Usage | $134 | $156 | $156 | $156 | $156 | $156 | 17% |
| Access | $67 | $85 | $141 | $202 | $268 | $338 | 405% |
| Usage as % Water Charges | 67% | 65% | 52% | 44% | 37% | 32% | |
| Wastewater | $618 | $730 | $771 | $811 | $859 | $907 | 47% |
| Access+Wastewater (A+W) | $686 | $815 | $912 | $1,013 | $1,127 | $1,246 | 82% |
| Total | $819 | $971 | $1,068 | $1,169 | $1,283 | $1,402 | 71% |
| Usage (% of total) | 16% | 16% | 15% | 13% | 12% | 11% | |

Under the current proposal, by the end of the period, the access charge will have increased by 405% and single-person households (some 25% of all households in Sydney), who use the least water and are often the least well-off in our society, are burdened with the highest increase – 71% from $819 per year for water + sewage to $1,402, with water usage representing just 32% of water charges and 11% of the total.

Single-person households generally use only a small amount of water and create very little sewage, so they are likely to have a much lower contribution to the need for additional infrastructure than households that use two or three times as much water, compounding the unfairness of this proposal. By the end of this period a single-person household will pay *$28.03 per kL of water used* (Table 2, bottom right), compared to $6.23 for households using 8 times as much water, most likely those with swimming pools and large, water-thirsty gardens.

**Table 2. Proposed price increases for low (50 kL/year), possible median (100 kL/year) and highest 10% of water users (>200 kL year) and the total cost per kL of water used**

| Year | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 | %increase |
|---|---|---|---|---|---|---|---|
| **Total Cost** | | | | | | | |
| Household, 50 kL/year | $819 | $971 | $1,068 | $1,169 | $1,283 | $1,402 | 71% |
| Household, 100 kL/year | $953 | $1,127 | $1,224 | $1,325 | $1,439 | $1,558 | 64% |
| Household, 200 kL/year | $1,220 | $1,439 | $1,536 | $1,637 | $1,751 | $1,870 | 53% |
| Household, 400 kL/year | $1,754 | $2,063 | $2,160 | $2,261 | $2,375 | $2,494 | 42% |
| **Total cost per kL water** | | | | | | | |
| Household, 50 kL/year | $16.38 | $19.42 | $21.36 | $23.38 | $25.66 | $28.03 | |
| Household, 100 kL/year | $9.53 | $11.27 | $12.24 | $13.25 | $14.39 | $15.58 | |
| Household, 200 kL/year | $6.10 | $7.20 | $7.68 | $8.19 | $8.75 | $9.35 | |
| Household, 400 kL/year | $4.38 | $5.16 | $5.40 | $5.65 | $5.94 | $6.23 | |

This proposal is silent about the distribution of water use, and erroneously illustrates low water use by a two person household using 137 L per person per day, ignoring the fact single person households (some 25% of households in Greater Sydney, 41% in the city of Sydney) are the real low-water users.

## Pricing should be based on good data for low (lowest 25%) & typical (median) water use

Water use statistics are highly skewed by a small proportion of users consuming large amounts of water, often for outdoor gardens or swimming pools. **Most people would define low water users as the lowest 25% and medium water use as the median water use.** The latter is likely to be about 100 to 130 kL/year, noting that single-person households represent 25% of households and 2-person households a further 30%. A 2-person household using 180 L per person per day consumes 131 KL/year. It is not clear why the issues paper suggests medium water use is about 200 kL per year, when in reality, two thirds of households are likely to use less than this – i.e. 200 kL is closer to high water use!

The incorrect labelling of water use categories greatly distorts the consultation about the pricing proposal. By not considering the lowest 25% of water users, readers will not appreciate the unfairness of this proposal for 1-person households that account for 25% of all households in Greater Sydney and 41% in the city of Sydney. Under these unfair proposals, households that use the most water and generate the most sewage will pay just $6.23 per kL of water (and associated sewage) in 2029-30, compared to $28.03 for a single person household using 50 kL/year (Table 2 above).

## Best practice pricing allows ALL costs to be recovered by usage charges

The NSW Government's Best-Practice Management of Water Supply and Sewerage Guidelines advises (2007, p8): *With water becoming an increasingly scarce resource both locally and globally, it is appropriate that LWUs focus on influencing water demand through* ***increasing emphasis on usage based pricing****.*

*Best-practice* ***water supply*** *pricing requires that the usage charge recover those costs that vary with demand in the long-term (ie. long-run marginal cost), through a usage charge. These costs should include licence and extraction fees from external regulatory agencies and should reflect the indirect costs (ie. externalities) associated with these demands.*

***For some LWUs this cost may be such that all costs be recovered through a usage charge.*** *Where an access charge is required, the access charge for larger non-residential customers should reflect their capacity requirements.*

## Best practice pricing should be fair

The cost of maintaining and upgrading water and sewer pipes depends on their length, and the volume of liquid to be carried. Consequently pipe maintenance costs per household will decrease with population density. Single-person households and studio/1-bedroom units are often located in areas with a higher density of households per unit area, so these households will generally incur lower costs for pipe maintenance. Pipes serving low water using households will not need to carry as much liquid, reducing the need for upgrades to increase their capacity if population increases, again suggesting that most of the marginal cost relates to usage, not the number of households. Fair pricing proposals would therefore recover most of the cost via usage, rather than access charges.

## Alternative, fairer pricing proposal

An alternative fair pricing proposal would therefore be to freeze the water access charge at $67.05 and the wastewater access charge at $618, and raise the same amounts of money by increasing the charge per kL of water, with a small proportion of the wastewater charge (32% by 2029-30) coming from water usage charges. In reality, a much higher proportion than 32% is likely to end up as wastewater, so this is almost certainly under-represents the true costs.

As noted above, the Issues Paper does not provide details of the distribution of household water use, but with 25% of households being 1-person households and another 30% 2-person households (130 kL/year for 2 people using 180 L per person per day), it seems likely that median household water use is about 100 to 130 KL/year, and mean household water use similar or less than the Australia-wide mean of 175 KL/year (Australian Bureau of Statistics (2021-22), *Water Account, Australia*) but it could be as high as

the 200 kL/year described in the issues paper as typical household use. If so, all households using less than 200 KL – at least two thirds of households – will be better off under this alternative, fairer proposal.

Note also that households using 200 kL or more per year are the ones that could save the most money by installing water-saving devices, such as water-efficient appliances and shower-heads. They should be encouraged to do so, thereby reducing the need for expensive new infrastructure and additional costs to operate the desalination plant. To avoid hardship, means-tested rebates for improving water efficiency should be made available to all residents.

The table below shows estimated costs of the alternative, fairer proposal to raise the same amount of money, assuming mean household consumption is 200 KL/year and access charges frozen at $67.05 (water) and $618.48 (wastewater). There is still a major discrepancy between the costs per kL for a single person household using 50 kL per year ($19.63 per kL) and a household using 400 kL/year, but at least there is some reduction in the unfair cost burden and some improvement in long-term environmental sustainability.

| Year | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 |
|---|---|---|---|---|---|---|
| cost per kL | $2.67 | $3.77 | $4.25 | $4.76 | $5.33 | $5.92 |
| **Total Cost** | | | | | | |
| Household, 50 kL/year | $819 | $874 | $898 | $923 | $952 | $982 |
| Household, 100 kL/year | $953 | $1,062 | $1,111 | $1,161 | $1,218 | $1,278 |
| Household, 200 kL/year | $1,220 | $1,439 | $1,536 | $1,637 | $1,751 | $1,870 |
| Household, 400 kL/year | $1,754 | $2,193 | $2,387 | $2,589 | $2,816 | $3,054 |
| **Total cost per kL water** | | | | | | |
| Household, 50 kL/year | $16.38 | $17.48 | $17.96 | $18.47 | $19.04 | $19.63 |
| Household, 100 kL/year | $9.53 | $10.62 | $11.11 | $11.61 | $12.18 | $12.78 |
| Household, 200 kL/year | $6.10 | $7.20 | $7.68 | $8.19 | $8.75 | $9.35 |
| Household, 400 kL/year | $4.38 | $5.48 | $5.97 | $6.47 | $7.04 | $7.63 |

## Response to questions

1. What do you think about Sydney Water's engagement process? Do you think Sydney Water has engaged effectively with customers and stakeholders?

**No. There are no examples of the disproportionate cost increases for single-person households. This has resulted in a highly flawed engagement process. More information on the distribution of household water consumption is required, e.g. the following percentiles of residential users**
**5%, 10%, 15% 20% 25% 30% 35% 40% 45% 50% (median) 55% 50% 65% 70% 75% 80% 85% 90% 95%**
**and the same for commercial users:**
**5%, 10%, 15% 20% 25% 30% 35% 40% 45% 50% (median) 55% 50% 65% 70% 75% 80% 85% 90% 95%**

2. What do you think about the key outcomes and performance measures Sydney Water is aiming to deliver for its customers?

**Environmental Protection is correctly listed as a key outcome. But this cannot happen unless there's a stated goal of improved water efficiency and a charging system (such as the fair pricing proposal shown above) that encourages water efficiency.**

3. Setting prices that customers can afford is a key concern for this review. What factors should we take into account when considering customer affordability?

**Fair prices should fairly reward those who do their bit to reduce water consumption and impose low demands on the system. This proposal does the opposite by penalizing them with the highest price increases.**

4. How would the bill increases proposed by Sydney Water impact your household budget?

**Requiring low water users to subsidize those that use the most water unfairly impacts on the household budgets of the vast majority of water users.**

5. What do you think about Sydney Water proposing to recover most of its additional costs to service customers through the water service charge (a fixed charge that does not vary by water usage)?

**It totally unfair and inequitable and should not be allowed.**

6. Would you reduce the amount of water you use to lower your water bill in response to Sydney Water's proposed price increases? If so, by how much?

**Reducing water consumption to zero for a single person household would save only $156 in 2029-30. This in no way can compensate for the massive increase from $67 to $338 in the access charge. As noted above, this proposal is totally unfair and inequitable and should not be allowed.**

7. What adjustments would you make to your home to reduce your water consumption? For example, would you install water saving devices or switch to lower water use appliances?

**These proposals aren't designed to encourage water efficiency. They disproportionately slug low water using households with the highest increases. In this cost-of-living crisis, low income single-person households will not be able to afford water saving devices and still pay their bills. A much better way to reduce water consumption would be to implement the fairer water charges shown above.**