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# REVIEW OF MAXIMUM PRICES FOR SYDNEY WATER'S WATER, SEWERAGE AND RELATED SERVICES AND WATERNSW'S BULK WATER SERVICES IN GREATER SYDNEY

Public Hearing – Tuesday 26 November 2019  
Northcott Room, Level 4  
SMC Conference & Function Centre, 66 Goulburn Street, Sydney NSW

## AGENDA

Item	Indicative time	Session
	10:00 am	Registration/tea & coffee
1	10:15 am	Welcome (IPART Chair)
2	10:30 am	<b>Part A: WaterNSW Greater Sydney's pricing proposal</b>
		WaterNSW to provide an overview of its pricing proposal for maximum charges to apply from 1 July 2020.
	11:00 am	<b>Session 1: Efficient expenditure, cost allocation and prices</b>
		Our process and key issues relating to WaterNSW's operating and capital expenditure. This session will cover: <ul style="list-style-type: none"> <li>▼ WaterNSW's proposed expenditure</li> <li>▼ WaterNSW's approach to allocating costs between its customers</li> <li>▼ WaterNSW's proposed pricing structures to recover these costs</li> </ul>
		Presented by: Letitia Watson-Ley, Sarah Holdsworth
	11:30 am	<b>Session 2: How best to share risk between WaterNSW and its customers</b>
		Our process and key issues relating to unforeseen costs and risks that arise during the determination period. This session will cover: <ul style="list-style-type: none"> <li>▼ How unexpected costs from a regulatory change or catastrophic event are shared between WaterNSW and its customers</li> <li>▼ How risks from major projects commencing during the determination period are shared between WaterNSW and its customers</li> <li>▼ How demand risk is shared between WaterNSW and its customers</li> </ul>
		Presented by: Maricar Horbino, Shirley Lam
	12:00 pm	<b>WaterNSW open question session</b>
		This session will address any questions raised by hearing participants.

<b>3</b>	<b>12:15 pm</b>	<b>Lunch (45 mins)</b>
	12:45 pm	Registration
<b>4</b>	<b>1:00 pm</b>	<b>Part B: Sydney Water's pricing proposal</b>
		Sydney Water to provide an overview of its pricing proposal for maximum charges to apply from 1 July 2020.
	1:30 pm	<b>Session 1: Drought, environment and expenditure</b>
		Our process and key issues relating to Sydney Water's pricing proposal and updated expenditure on drought and environmental performance. This session will cover: <ul style="list-style-type: none"> <li>▼ Sydney Water's proposed water security and resilience expenditures</li> <li>▼ Proposed expenditure on improving environmental performance</li> </ul> Presented by: Anthony Rush
	2:00 pm	<b>Session 2: Growth and expenditure</b>
		Our process and key issues relating to Sydney Water's proposed expenditure to service long-term growth. This session will cover: <ul style="list-style-type: none"> <li>▼ Sydney Water's growth strategy for network expansion into greenfield areas and increased density in established areas</li> <li>▼ How we will review the efficiency of the costs of growth Sydney Water has proposed</li> </ul> Presented by: Chirine Dada
	2:30 pm	<b>Session 3: Prices and form of regulation</b>
		Our process and key issues relating to how Sydney Water's proposed expenditures are passed on to customer charges. This session will cover: <ul style="list-style-type: none"> <li>▼ How Sydney Water should structure its prices to recover its efficient costs</li> <li>▼ Drought impact on prices and forecast water sales, including how charges could be adjusted annually in times of uncertainty</li> </ul> Presented by: Ian Dehlsen
	3:00 pm	<b>Sydney Water open question session</b>
		This session will address any questions raised by hearing participants.
<b>5</b>	<b>3:30 pm</b>	<b>Closing remarks from the Chair</b>

## Drop-in Feedback Session

Item	Indicative time	Session
1	3:30 – 4:00 pm	Arrival and refreshments.
2	4:00 – 6:00 pm	IPART staff will be available to hear your views and answer questions in an informal setting.



# AGENDA

**Date** 26 November 2019

**Time**

10 am Registration

10.30 am Part A: WaterNSW prices

1.00 pm Part B: Sydney Water prices

**Location** Northcott Room, Level 4  
SMC, 66 Goulburn Street,  
Sydney NSW 2000

**Sli-do codes** G848 for WaterNSW  
F950 for Sydney Water

## PUBLIC HEARING

Review of prices for Sydney Water's services and WaterNSW's bulk water services to Greater Sydney

**New prices from 1 July 2020**

Item No	Time (indicative)	Item
	10am	Registration / Tea & coffee
<b>1</b>	<b>10.15am</b>	<b>Welcome (IPART Chair)</b>
<b>2</b>	<b>10:30 am</b>	<b>Part A: WaterNSW Greater Sydney's prices</b>  Presentation by WaterNSW, followed by:  I. Session 1: Efficient expenditure, cost allocation and prices  II. Session 2: How best to share risk between WaterNSW and its customers  III. Q&A session
<b>3</b>	<b>12.15pm</b>	<b>Lunch</b>
<b>4</b>	<b>1.00pm</b>	<b>Part B: Sydney Water's prices</b>  Presentation by Sydney Water, followed by:  I. Session 1: Drought, the environment and expenditure  II. Session 2: Growth and capital expenditure  III. Session 3: Prices and form of regulation  IV. Q&A session
<b>5</b>	<b>3.30pm</b>	<b>Close of Public Hearing</b>



## Bulk water price

### WaterNSW

Charges fixed and volumetric prices to Sydney Water, three Councils and around 60 smaller customers for the delivery of bulk water services in the Greater Sydney area.

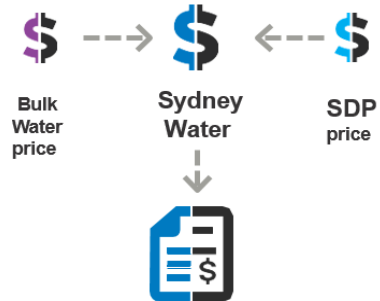


## Retail price

### Sydney Water

Charges households and businesses a service and usage price for water, wastewater and stormwater services. These charges includes Sydney Water's cost of acquiring bulk water.

*Sydney Water sought customer feedback for its pricing proposal, including expenditure on projects which will deliver improved environmental outcomes above the mandated requirements*



## SDP price

IPART has set prices until 30 June 2022 for SDP's charges to apply to Sydney Water.

## The proposals at a glance

### WaterNSW's prices, 2020-24

Opex:	\$384 million
Capex:	\$682 million
Revenue:	\$890 million
Proposed price changes:	↓ 1%

### Sydney Water's prices, 2020-24

<b>'Baseline' costs</b>	
Opex:	\$5.5 billion
Capex:	\$5.1 billion
Revenue:	\$10.7 billion
Residential bill:	↓ 3.2% (-\$37)
Non-residential:	↓ 0.5-12%

### If drought continues...

Opex:	\$5.9 billion
Capex:	\$5.5 billion
Revenue:	\$10.7 billion
Residential bill:	↑ 2.5% (+\$30)
Non-residential:	↓ 9% to ↑ 6.5%

### 2017 SDP prices

When SDP was turned on (mid-2019), residential water bills increased by an average of \$25 to \$35.



### SESSION 1

#### Efficient expenditure, cost allocation and prices

WaterNSW is proposing a **significant increase in capital expenditure** over the 2020 determination period, particularly on **drought** and **growth-related projects**. These include Avon Deep Water Access and Burrawang to Avon Tunnel. There is also proposed expenditure on **environmental projects** such as Warragamba E-Flows.

Its proposal is 2.5 times higher than its current capital allowance. We are reviewing WaterNSW's efficiency and capacity to deliver these projects. **We are interested in your views on this expenditure.**

WaterNSW proposes to **maintain** its existing approach to **allocating costs** between Sydney Water, councils and raw/unfiltered water customers.



It also plans to **keep** its current **price structures** in place (ie, 80:20 ratio of fixed to volumetric charges for Sydney Water and councils). We are seeking feedback on the merits of moving to a larger fixed proportion of costs (eg, 90% fixed), to better manage WaterNSW's **revenue risk**.



#### Stakeholder views

There have been only **limited stakeholder comments** on WaterNSW's **expenditure proposal**. This may be due to the costs of WaterNSW's proposed large investments being mostly offset by the current low cost of finance, which results in a 1% real decrease in prices.

Most stakeholders support maintaining **predominantly fixed charges** in WaterNSW's price structure. For example, Sydney Water considers the existing 80:20 ratio is appropriate sharing of risk between WaterNSW and its customers.

WaterNSW is open to increasing the fixed to volumetric ratio to better match its cost structure, but does not support a 100% fixed charge.

### SESSION 2

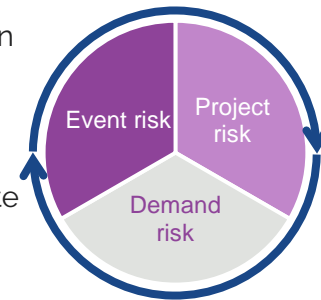
#### How best to share risk between WaterNSW and its customers

WaterNSW considers it important that it **shares the risks** of significant unforeseen costs and fluctuations in demand with customers.

These unforeseen costs may relate to a change in regulatory standards or tax (operational costs), a natural disaster or a major project could commence **during the determination period**.

WaterNSW has proposed mechanisms to allocate a greater share of these risks to its customers.

As part of our price review, we are considering how these risks should be allocated taking into account a range of factors including who is best place to manage these risks. **We are interested in hearing your views on this issue.**



#### Stakeholder views

Stakeholders raised **concerns about WaterNSW's proposal to share risks** with its customers by adjusting prices during the determination period. For unforeseen operational costs, Sydney Water and Flow Systems are concerned this would inefficiently shift risks to end-use customers and **not provide incentives for utilities to be proactive in managing these risks**.

For major projects, Sydney Water is concerned the proposal **could result in significant price and bill increases without fully consulting** on these impacts with stakeholders beforehand. Sydney Water also disagreed with WaterNSW's proposal for managing demand risks. It considers that an appropriate mechanism for WaterNSW should align with events that customers understand (eg, higher levels of water restrictions).



### SESSION 1

#### Efficient expenditure, cost allocation and prices



Notes

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### SESSION 2

#### How best to share risk between WaterNSW and its customers



Notes

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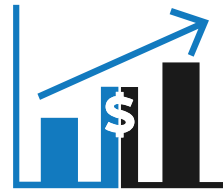


### SESSION 1

#### Drought, the environment and expenditure

The worsening impact of drought on the environment is evident through decreasing water supply, drier soils, and has been a driving factor of the **deterioration of Sydney Water's assets**.

Drought conditions will increase Sydney Water's operating and capital costs. This includes **expenditure on proactive asset management** and improving the environmental performance of its wastewater network, representing 53% (\$2.7 billion) of its proposed capital expenditure over the 2020 determination period.



Sydney Water's updated proposal includes up to \$1.4 billion additional expenditure, including the **Prospect to Macarthur link**, and conditional expenditure on **network upgrades to manage increased flows** from the Sydney Desalination Plan expansion and **water conservation measures**.



#### Stakeholder views

Stakeholder submissions raised **concerns about Sydney Water's assumption of 'average weather conditions'** in its pricing proposal as a return to historic average conditions may not occur.

Water conservation – particularly recycled water solutions – was another key issue raised. A number of submissions raised concerns that the **'retail minus' wholesale tariff framework** and **consumer resistance to recycled water** were considered major impediments to greater competition in the water market and the uptake of recycled water as a longer term solution.

**Existing recycled water schemes might be underutilised**, which is undesirable during drought conditions. In future we will consider if mechanisms should be adopted to encourage uptake, e.g. lower prices.

### SESSION 2

#### Growth and capital expenditure

Sydney Water has proposed baseline capital expenditure of \$5.1 billion over the 2020 determination period.

Large increases in proposed capital expenditure are driven by **investment in wastewater assets to meet future growth and drought resilience**.



In the absence of developer charges, the increased costs of servicing new development are **borne by the broader customer base**, and this factor represents 39% (\$1.96 billion) of their proposed capital expenditure.

The large increase in proposed capital expenditure will be **offset by a reduction in interest rates**, with a decrease in the cost of capital from 4.9% in the 2016 period, to a proposed 3.8% in the 2020 period.



#### Stakeholder views

Sydney Water's submission to our Issues Paper noted that significant infrastructure investment required to service growth could **make it difficult to keep bills affordable over the longer term**, particularly if interest rates and the cost of capital rise.

We also received online comments which expressed a view that the costs of servicing new properties **should be funded by developers** and not the broader customer base.

Western Sydney Business Chamber acknowledged that with rapid growth and development moving further away from wastewater ocean outfalls, **water recycling may become an increasingly economic solution** to wastewater treatment and disposal.





### SESSION 3

### Prices and form of regulation

Sydney Water's proposal means a **'baseline' typical bill would decrease by 3.2% compared to current prices**. This 'baseline' bill includes the cost to deliver its monopoly services including servicing new growth areas and some capital and operating expenditure responding to the current drought conditions. However, due to the lower interest rate environment, Sydney Water's forecast funding costs have fallen, which has had an offsetting impact on bills.



Bills could increase by 2.5% if drought continues

**However, should drought continue, Sydney Water proposes that bills could increase by an additional 2.5%.** This is because Sydney Water has proposed 'cost pass-throughs' to meet additional proposed expenditure for drought resilience projects including upgrades to its network to accommodate additional flows from the Sydney Desalination Plant and an expansion of its water conservation program. Sydney Water has proposed that these cost pass-throughs will increase customer service charges.

Sydney Water has also **proposed to adjust prices annually if demand changes** compared to its forecast demand (which is based on a return to average conditions). This means if water restrictions continue, and demand falls compared to its forecast, prices could increase in the following year.

### Stakeholder views



Sydney Water's **original (1 July) pricing proposal** did not consider how drought would impact on prices. Instead, it based prices on **'average' weather conditions**. Stakeholders questioned this and suggested we consider:

- Price structures should reflect the risk of **water scarcity**.
- Prices could be adjusted yearly in the event of water restrictions or drought events. This could send **consumption signals to customers** during periods of low rainfall and water supply.

**Sydney Water's update to its original pricing proposal (dated 12 November) now takes into account the costs ongoing drought conditions would impose on its business and recovered through prices.**

**However, demand forecasts have not been adjusted.**

Sydney Water's proposed prices (12 November update)		Current prices	Proposed price: 'baseline'	Proposed prices if drought continues
Water	Water usage (\$/kL)	2.11	2.11	<b>2.24</b>
	Water service - 20mm (\$/year)	82.28	97.54	<b>151.0</b>
Wastewater	Wastewater usage (\$/kL)	1.17	0.61	0.61
	Wastewater service – 20mm (\$/year)	585.80	628.34	628.34
	Deemed usage charge – (\$/year)	176.34	91.51	91.51
Stormwater	Service charge – residential single (\$/year)	78.88	80.98	80.98
	Service charge – residential multi (\$/year)	24.62	25.28	25.28
Late payment fee*			4.75	
Declined fee*			14.30	

\* Session 3 will discuss Sydney Water's late payment and declined fees, which IPART regulates separately under section 12A of the IPART Act.







# TIMELINE

Our review of WaterNSW Greater Sydney and Sydney Water prices

We will release our **Draft Report in March 2020**, which will outline our draft decisions.

We will then consider stakeholder submissions in response to the Draft Report, before releasing our Final Report and Determination in June 2020, for **new prices to apply from 1 July 2020**.

