

REVIEW OF PRICES FOR SYDNEY WATER

FROM 1 JULY 2020

Greater rewards for conserving water

The price you pay for water includes a **water usage price** that reflects Sydney Water's costs to supply an additional kilolitre of water to your tap.

The **water service charge** is a fixed fee charged to all customers. This fee recovers all other fixed costs to maintain the water system.

We propose more flexible water prices so that customers have more control, and can benefit from lower bills in these uncertain times. Specifically, we propose to:



Increase the water usage charge and decrease fixed charges, giving customers **more control** of their bill



Vary the water usage charge in response to dam storage levels, to **signal changes in the cost** of supplying water

\$2.11



Current water usage price/kL

\$2.30



New 'average weather' usage price/kL

\$3.12



New 'drought' usage price/kL

\$96.69

Current water service charge

\$21.22

New water service charge (all weather conditions)

Using price as a signal

During drought, Sydney Water incurs additional costs. We consider that the most efficient and equitable way to recover these costs is to have a **higher usage price during drought**. As such, drought costs would be passed onto customers through an uplift in the usage price when dam levels are low.



This approach would mean that customers are charged higher prices when the cost of water provision is higher, and also provides a stronger incentive for customers to reduce their water consumption.

How does our flexible pricing work?

From 1 July 2020, if dam levels are above 60% at the start of each quarter, then the water usage price will be \$2.30 per kilolitre. This price has been set with reference to the long term cost of providing water under 'average weather' conditions.

When dam levels fall below 60%, the price would increase to \$3.12 per kilolitre as water becomes more costly to supply. This higher price would stay in place until dam levels are 70% at the start of the quarter.

We will only pass on Sydney Water's efficient drought costs:



Sydney
Desalination
Plant
operation



Water
conservation
projects



Water restrictions
advertising and
enforcement



Shoalhaven
pumping

We will continue to set the base water usage price with reference to the long run marginal cost of water supply, or LRMC. This approach is efficient because it sends an accurate message to water users and providers about the long-term costs of supplying water.

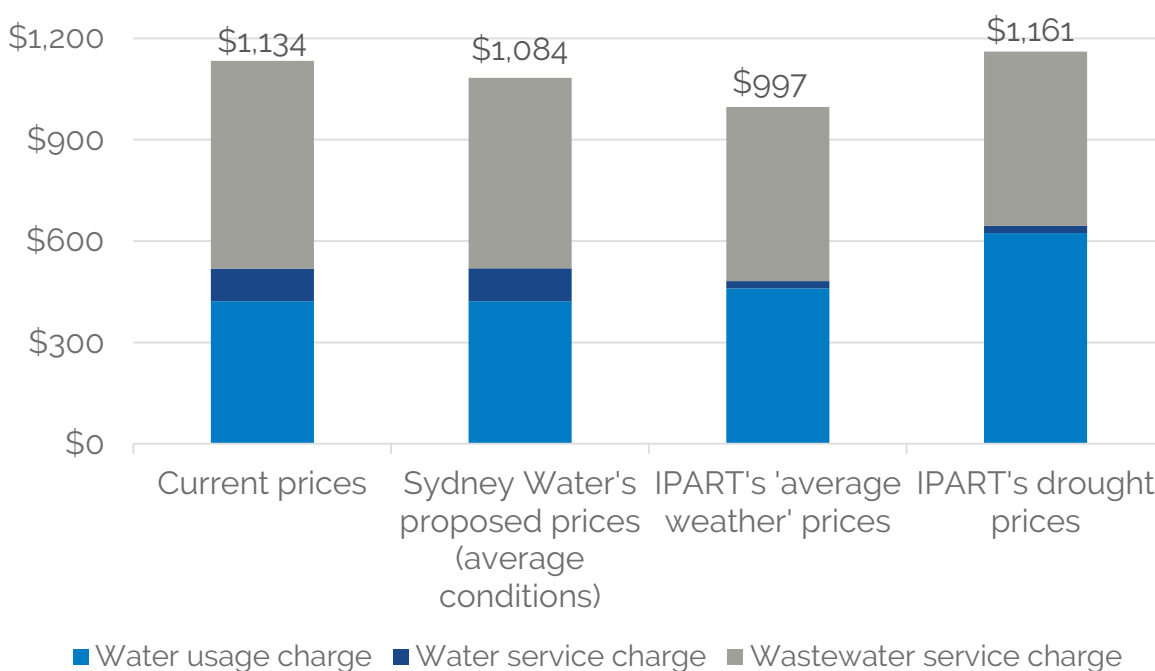
This approach signals the higher cost of supplying water in periods of scarcity, while keeping prices simple so that customers have the ability to react when prices change.

Water bills will fall in normal conditions, and rise in drought

Compared to current prices, a typical household's water bill would be



Average water bill under different pricing proposals



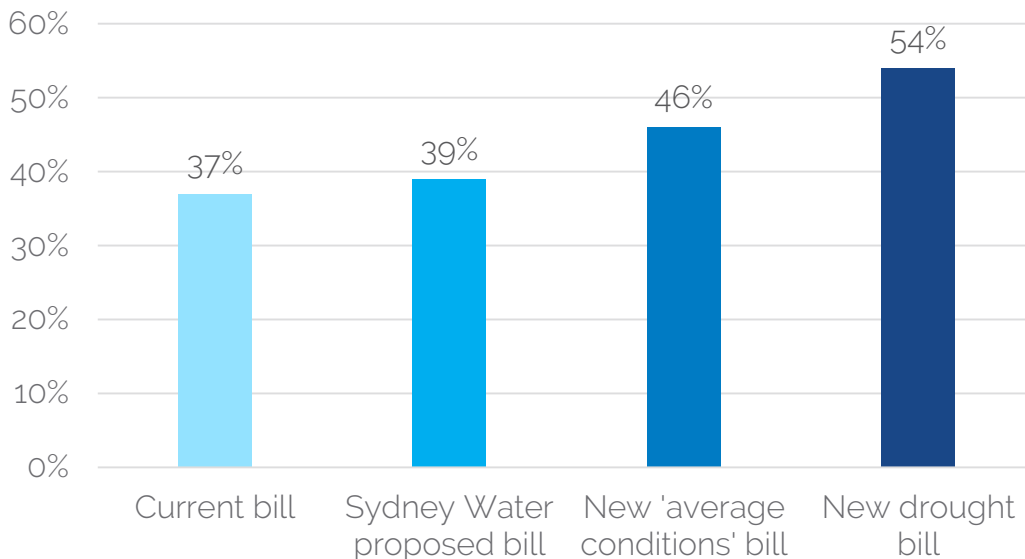
Currently dam levels are well above 60%, meaning that bills will be lower, providing relief for customers during these uncertain times. However, should Sydney return to drought and dam levels drop significantly, the water usage price will rise, encouraging water conservation.

Pensioners, who receive Government rebates, could see an increase in their bills if nothing else changed. This is because the existing rebate reduces the service charge rather than the usage charge. We are happy to work with the Government to review how it sets pensioner rebates to reduce the impact on pensioner bills.

More control over your bill

We propose to rebalance water bills, so that usage charges are higher but service charges are lower.

This means that the proportion of the average bill that is variable is increasing...



This would give customers more control of their water bill. **Saving water means a greater reduction in your bill.**

If the average household cut their water use, they could make big annual savings. For instance, cutting water use by...

10%
they would save
\$46
in average conditions
\$62
in drought



20%
they would save
\$92
in average conditions
\$125
in drought

We considered a range of other options before selecting this approach



Our current approach creates too much risk for Sydney Water

We currently set usage prices with reference to the long run marginal cost of providing water. However, this approach does not fully factor in the increased costs of supplying water in periods of scarcity, nor does it sufficiently address Sydney Water's revenue risks in times of drought.

Sydney Water's proposal would not encourage water conservation during drought

Sydney Water proposed adding the costs of drought to the fixed service charge as opposed to the water usage charge.

This approach would not send the right signal to customers about the value of water during periods of scarcity, and goes against stakeholder preferences for costs to be predominantly recovered through usage prices.



Setting a higher price for households that use a lot of water would not be well-targeted, efficient or equitable

Under an inclining block tariff (IBT), customers would be charged a relatively low price for water up to a point, but the price would increase if they used more water. This aims to impose a higher cost on 'discretionary' uses of water (such as watering gardens or filling swimming pools). We looked at whether there would be benefits to low income households from setting an IBT.

However, we did not find any evidence that this approach is equitable. The main driver of water consumption is the number of people in a household, so setting a higher price for households that use a lot of water would penalise larger households. Further, having two prices is not efficient because at least some water consumption is priced incorrectly.



A pure scarcity price is currently not feasible

Under a pure scarcity price, the price of water would vary with dam levels to balance supply and demand. However, our analysis suggests this approach could result in a significant increase in the water usage price during drought.

Under this approach, Sydney Water's revenue would also become more volatile, meaning that it could significantly over or under recover its costs. Further, as water bills are issued quarterly, customers would find it difficult to adjust behaviour in response to frequent price changes.

