

REVIEW OF PRICES FOR  
**WATER NSW**  
**GREATER SYDNEY**  
FROM 1 JULY 2020

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[Overview](#)

March 2020

Draft Report

## We are consulting on draft prices for Water NSW's customers in Greater Sydney from 1 July 2020

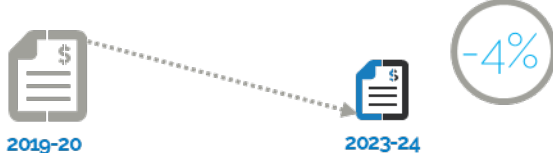
The Independent Pricing and Regulatory Tribunal (IPART) has made draft decisions on the maximum prices that Water NSW can charge its customers for water services it provides in the Greater Sydney region for the next four years (1 July 2020 to 30 June 2024 – the determination period).

Water NSW's customers are Sydney Water Corporation (Sydney Water), three councils (Goulburn-Mulwaree Council, Shoalhaven City Council and Wingecarribee Shire Council), and about 60 retail raw and unfiltered water customers.

If you are a Sydney Water customer, please refer to our concurrent [price review of Sydney Water](#), where we are also consulting on draft prices to apply from 1 July 2020.



### IPART's draft prices



Under our draft prices, **customer bills would be 4% lower** in 2023-24 when compared to customer bills in 2019-20.

### Water NSW's proposed prices



Under Water NSW's proposed prices, **customer bills would be 11% higher** in 2023-24 when compared to customer bills in 2019-20.

Key drivers of this difference are our decisions to reduce operating and capital expenditure from the levels proposed by WaterNSW and because of falls in interest rates that have occurred since WaterNSW submitted its pricing proposal.

## We are seeking feedback



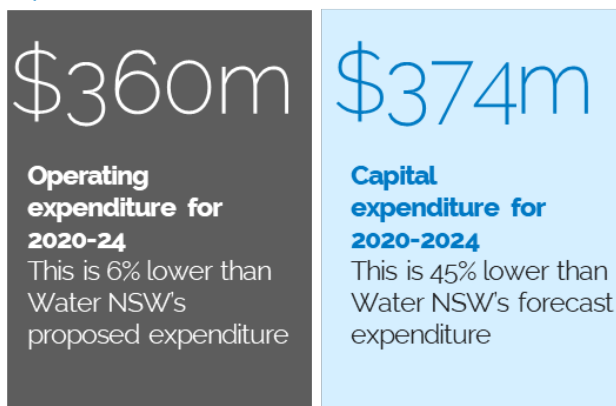
## Ensuring Water NSW's expenditure is efficient and responsive to climate variability, weather events and population growth

Climate variability and weather events presents challenges to maintaining the reliability of water resources in Greater Sydney. In recent times, Water NSW's catchments have been affected by severe drought, catastrophic bushfires and heavy rainfall. A growing population also adds pressure on our water resources.

Utilities need to develop drought and long-term water supply plans in a co-ordinated and timely way

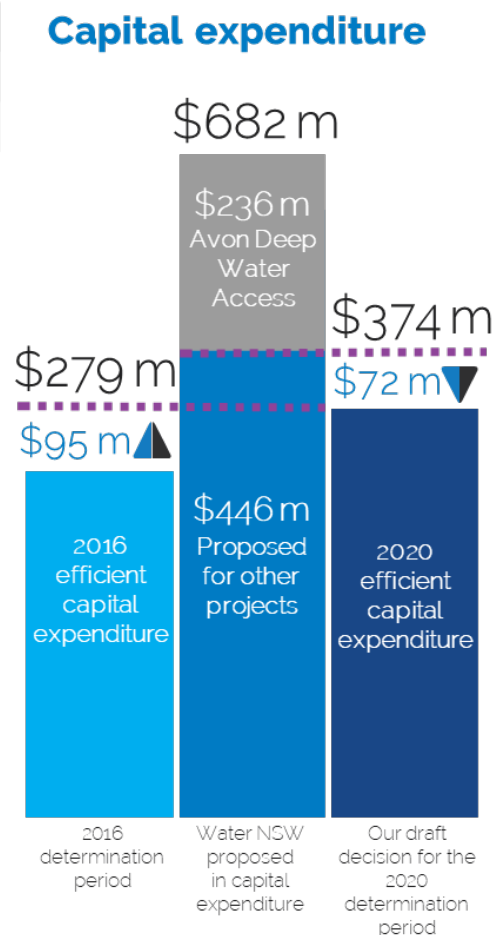
Better planning means utilities will be prepared to manage water resources and expenditure in response to weather variability and population growth.

We found there was scope for Water NSW to improve planning and contain expenditure to efficient levels.



Water NSW's pricing proposal focused on responding to worsening drought conditions.

- It proposed \$236 million for a project to access deep water at **Avon Dam**.
- However, due to recent heavy rainfall, we consider the Avon Deep Water Access project is no longer required in the 2020 determination period, and going forward should be reconsidered against other options.
- Our draft decision on efficient capital expenditure is **\$72 million, or 16% less** than Water NSW's pricing proposal (excluding the Avon Deep Water Access project).
- Our draft decision on efficient capital expenditure is **\$95 million, or 34% more** than Water NSW's efficient capital expenditure over the 2016 determination period.



Our decisions on efficient expenditure (ie, the funding envelope) are based on a comprehensive review on the business' pricing proposal. However, the business has the **flexibility to reprioritise** its expenditure within this funding envelope during the determination period in response to changing circumstances and conditions.

## Excluding the effects of inflation, prices are set to fall by around 14% for all Water NSW customers in Greater Sydney

Compared to Water NSW's proposal, we have reduced the total revenue to be recovered by customer prices by \$124.2 million (or 14%). This is driven by our [decision on efficient levels of expenditure](#) and the [current low interest rate environment](#).

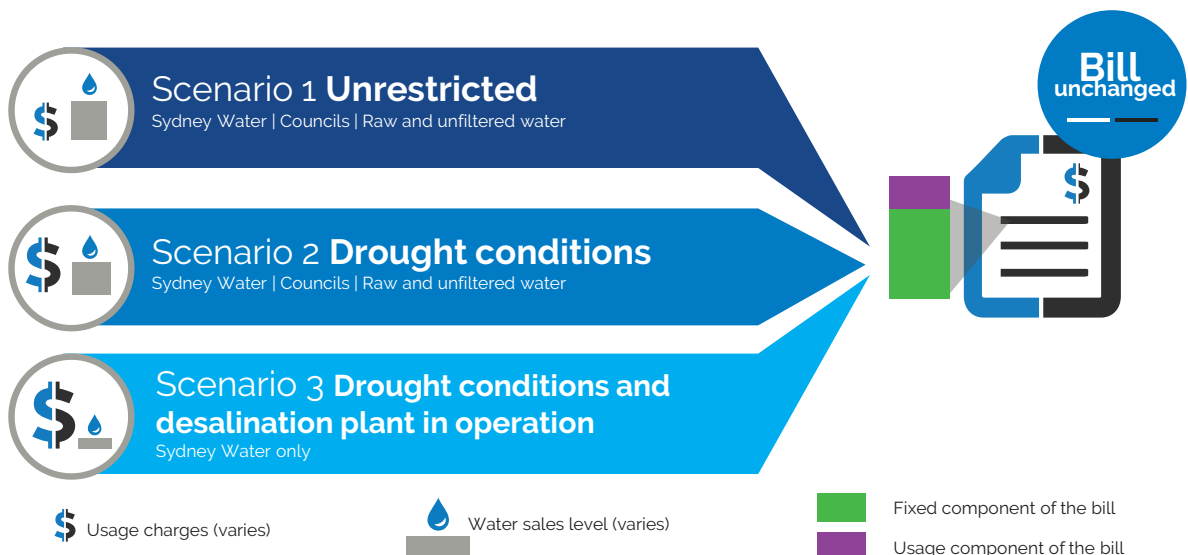


-14%

Under our draft decisions, prices for all customers fall by around 14% from 1 July 2020 (compared to current prices, excluding inflation).

We are introducing [dynamic water usage prices](#) for all customers. This means that [usage prices will change](#) depending on whether we are in unrestricted or drought conditions. For Sydney Water, usage prices will also increase when the desalination plant is in operation. [Fixed prices will stay the same](#) for all scenarios.

In drought, we have set higher usage prices to offset expected lower water sales. The change in price is not expected to impact the overall customer bill.



The treatment of additional costs associated with pumping water from Shoalhaven to Sydney are not included in the above scenarios.

What are the benefits, risks and/or constraints that could result from having dynamic water usage pricing?



## Managing uncertainty during the determination period



To manage uncertainty, we aim to achieve a risk allocation that leads to prices reflecting efficient costs, while ensuring that the party best placed to manage the risk has appropriate incentives to manage it efficiently.

Three key draft decisions are summarised below.



### Contingent project risk

Contingent projects are new projects that are not considered in our price review. Under our Draft Report, we have provided a range of options that can be used by the utilities to manage unforeseen costs arising from new project(s) during the determination period:

- ▼ If the materiality is **low**, the utility **can reprioritise its capital program** during the determination period.
- ▼ If the materiality is **medium**, the utility can **seek a preliminary assessment** from IPART on the efficiency of a contingent project that may arise during the determination period.
- ▼ If the materiality is **high**, the utility can **seek an early price determination**.

This provides appropriate incentives for the utility and the NSW Government to undertake proactive, coordinated and robust planning across the region.



### Cost pass-through for Shoalhaven Transfer Scheme

We have improved the cost pass-through mechanism to pass through the efficient cost of pumping water from Shoalhaven to Sydney through Water NSW's bulk water usage price to Sydney Water. The Shoalhaven cost pass-through mechanism now ensures that:

- ▼ All the components of the **total efficient energy cost can be recovered** by Water NSW.
- ▼ Only the **efficient benchmark cost** of pumping is passed through to Sydney Water.
- ▼ There is **greater flexibility to allow Water NSW to recover efficient costs** from transferring water in periods of high energy costs if and when this is required in response to drought.



### Demand volatility risk

We have mitigated Water NSW's demand volatility risk by:

- ▼ Maintaining a **high fixed to variable price structure** to align with Water NSW's cost structure.
- ▼ Setting **usage prices that increase in drought** when dam storage levels are low.
- ▼ Setting **usage prices** to Sydney Water that **increase when SDP supplies Sydney Water** (ie, when SDP supplies Sydney Water, Sydney Water buys less water from Water NSW).



## Where can I find out more information

Our **Draft Report** on Water NSW Greater Sydney's prices for 2020-24



Our **Draft Determination** of Water NSW Greater Sydney's prices for 2020-24



**Media Release** on Sydney Water and Water NSW's prices for 2020-24



HAVE  
YOUR SAY



We will **consider all feedback** when making our draft decisions.

We will **accept stakeholder** feedback on this stage of our review **until 27 April 2020**.

## There are two ways to have your say:

### 1. Make a submission to our draft report

You can make a submission until 27 April 2020, by following the links on our [Water NSW Greater Sydney review page](#) on our website – [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

You can make a formal submission on our website or by post.



**Postal address:**

Review of prices for Water NSW Greater Sydney  
Independent Pricing and Regulatory Tribunal  
PO Box K35 Haymarket Post Shop,  
Sydney NSW 1240

### 2. Provide feedback on our website

You can provide your comments by 27 April 2020 in the boxes provided on the Water NSW Greater Sydney review page on our website.



#### The Independent Pricing and Regulatory Tribunal (IPART)

IPART provides independent regulatory decisions and advice to protect the and promote the ongoing interests of the consumers, taxpayers and citizens of NSW. IPART's independence is underpinned by an Act of Parliament. Further information can be found on IPART can be obtained from IPART's website: <https://www.ipart.nsw.gov.au/Home>