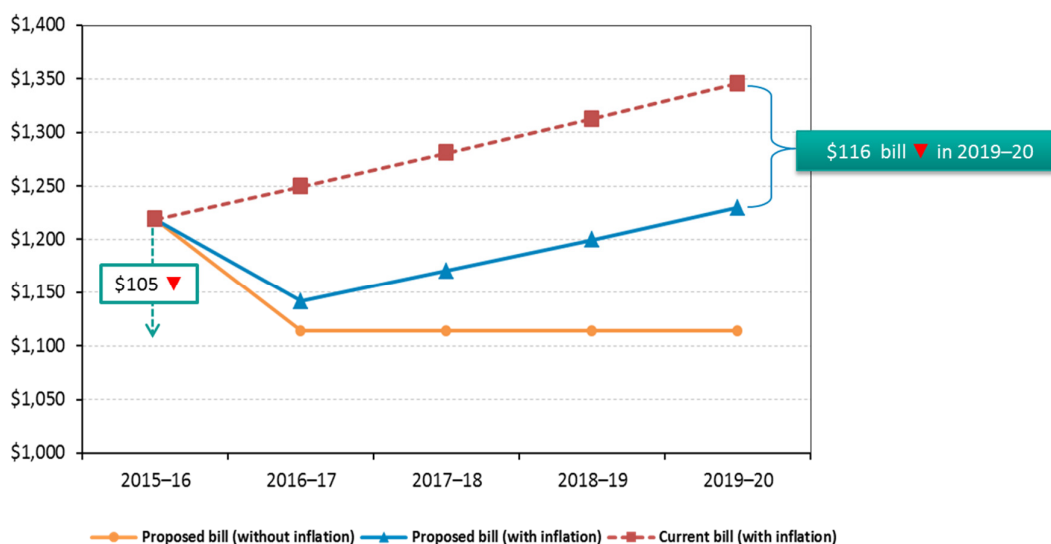




Prices for customers 2016–20

Sydney Water is proposing to lower prices for customers over the next four years from 1 July 2016. This means most households will save over \$100 on their water and wastewater bill each year.

Figure 1 – Sydney Water residential average annual household bill 2016–2020 (with and without inflation)



Bills based on average annual use of 220 kL a year

We're able to reduce customer bills for 2016–20, because we've made significant efficiency gains in the current regulatory period. We've become more efficient, without compromising the quality of service we offer our customers.

We'll also be passing on to our customers very large cost reductions from external factors, notably lower interest rates.

Sydney Water is Australia's largest water utility and among the top ten largest water utilities in the world. We provide high quality water, recycled water and wastewater services to 1.4 million properties and 4.8 million people, covering an area of 12,700 square kilometres across Sydney, the Illawarra and the Blue Mountains. We also supply stormwater services to 570,000 properties, across 30 different council areas.

Sydney Water faces a range of current, emerging and future challenges in the NSW urban water market. We believe that by continuing to improve the way we manage our business we'll be able to better respond to these challenges. Two key initiatives we've identified for 2016–20 are enhanced customer engagement and a proposal to modernise regulation.

We're connecting more with our customers and will continue to improve our understanding of their needs and desires. We want to know what they truly value to enhance their experience.

We propose to change the way we charge for water and wastewater services, to better reflect what customers have told us they prefer. This is just one way that we're using customer insights to inform our decision-making and enhance customer value.

To deliver valued outcomes to our customers, we're also proposing important changes to the way we are regulated.

These ongoing improvements are crucial for Sydney Water to continue to improve performance and respond to future challenges.

The Independent Pricing and Regulatory Tribunal (IPART) sets our prices – generally over a four year period or 'price path'.

We propose prices to IPART before the end of each price path. IPART also considers submissions from other organisations.

The current period finishes on 30 June 2016.

In this submission, we propose to:

- **reduce customer bills**, while still delivering high quality services
- **enhance customer engagement**, so we can better align our services to meet customer expectations
- **modernise regulation**, so we can deliver better outcomes for customers.

Performance over 2012–16

Sydney Water is transforming into a customer-centred, world-leading utility that provides high quality services to customers, cost-effectively, and at the right prices.

Over the current price path 2012–16, we've:

- improved customer satisfaction, with our overall quality of service and our value for money ratings at an all-time high
- continued to deliver high quality services
- performed well against our operating licence and environment protection licences
- saved more than \$450 million against IPART's allowance in the 2012 determination
- realised an upgrade in our credit rating.

Price review 2016 proposal – customer bills, prices, revenues and costs

Compared with 2012–16, for 2016–20 we propose:

- a significant drop in household customer bills, as most will save around \$100 on their bill each year
- large decreases in our prices for water, wastewater and for most stormwater services
- large decreases in our annual revenue requirement.

Bills (without inflation)

As shown in Figure 1, for residential single home customers (with average use of 220 kL a year), the water and wastewater bill in 2016–17 will be:

- \$1,114, which implies a bill reduction of \$105 or 8.6%.

For residential flats (with average use of 160 kL a year), the water and wastewater bill in 2016–17 will be:

- \$996, which implies a bill reduction of \$86 or 7.9%.

For the remainder of the period to 2019–20, bills will remain flat.

It's harder to assess the impact on non-residential customer bills, because of the broad range of businesses and organisations we serve. However, in general these customers will also receive significant bill savings under our pricing proposal.

Overall, of our non-residential customers:

- 43% save up to 10%
- about 50% will save 15–17%
- about 7% will save 35–39%.

A table of proposed residential and non-residential prices is provided at the end of this summary.

A table of residential annual bills, with and without inflation (at various levels of water usage), is also provided at the end of this summary.

Bills (with inflation)

As shown in Figure 1, for residential single home customers, the water and wastewater bill in 2016–17 decreases by \$77, then rises with inflation over the rest of the period.

Under our proposal, the bill in 2019–20 would be \$116 lower than if the annual average bill in 2015–16 had increased by inflation.

Pricing (without inflation)

Water and wastewater bills are based on the following residential prices over the four years:

- water – a fixed annual service charge of \$98.52 a year and a usage price of \$1.97/kL
- wastewater – a fixed annual service charge of \$582.34 a year.

For Sydney Water’s single residential home stormwater customers, prices are:

- an average fixed annual service charge over four years of \$80 a year in our declared stormwater areas
- a fixed stormwater drainage charge for Rouse Hill of \$140.33 a year.

Revenues and costs (without inflation)

Sydney Water estimates that we require \$9.7 billion (in \$2015–16) in revenue over 2016–20. This is \$600 million lower than the revenue IPART allowed in 2012–16.

Drivers of bill, price and revenue changes

The proposed drop in customer bills in the next price path and the reduced annual revenue requirement is mainly because:

- we are passing through savings from the current economic environment, notably lower interest rates
- we have saved over \$450 million since 2012 by being more efficient
- we expect lower costs in buying water.

Of the average savings, about 30% is from being more efficient over the current period and projected efficiencies in the future. The remaining 70% is from external factors beyond our control.

Challenges – current, emerging and future

Sydney Water faces a number of current, emerging and future challenges, which threaten our ability to continue to deliver high levels of customer satisfaction at affordable prices.

These challenges include:

- population growth in Sydney
- potential policy, legislative and regulatory changes
- demands on State finances
- customer concerns about the cost of living
- greater customer expectations on engagement
- climate change.

To meet these challenges and protect the interests of our customers, we must:

- continue to improve how we do business
- work effectively with other agencies to promote whole-of-government solutions and improve our understanding of the costs of future urban development and rising environmental standards
- enhance customer engagement to more efficiently allocate resources to serve our customers
- facilitate regulatory change, to ensure we deliver better value for customers.

Sydney Water's strategy – enhancing customer engagement

To ensure we continue to improve how we manage our business, Sydney Water is rolling out a new corporate strategy. This will mean customers:

- find us easy to deal with
- experience us as transparent
- trust our business more, both now and in the future.

Customer and community engagement

Sydney Water has many touch points with our customers and the community and we've already made marked improvement in our relationships with them. We're constantly looking for opportunities to inform, consult, involve and collaborate with customers to deliver better value.

In addition to delivering a high quality of service to customers at an affordable price, we've also continued to maintain performance against the service standards in our operating licence and environmental standards in our environment protection licences (EPLs).

Enhancing customer engagement – water tariff proposal 2016–20

Working with experts from the University of Technology Sydney (UTS), we engaged with customers by surveying nearly 1,700 customers online. This assessed customer and community preference for bill certainty (that is, a higher fixed service charge) compared with bill control (that is, a higher usage price). As part of this, we provided customers with a bill analyser tool to show how their water use could affect their bill.

We used these results, and traditional cost estimation techniques, as the basis of our proposed tariff structure for water.

Modernising regulation

To respond successfully to current, emerging and future challenges, we must improve our business. However, customers and Sydney Water will also benefit from modernising the regulation of the NSW urban water market. We propose the following changes to how we are regulated so we can:

- share efficiency gains between customers and our business, and pass through costs as they happen rather than including risks in pricing
- set our own prices within a limit approved by IPART, giving us the flexibility to adjust prices every year to better reflect costs and customer preferences.

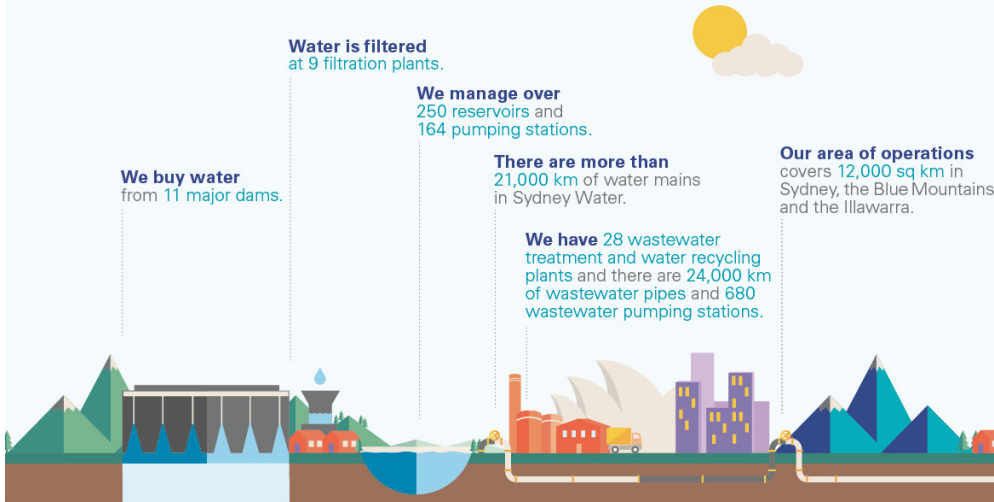
Helping customers in financial hardship

Sydney Water does and will continue to support customers in need by providing flexible payment arrangements and tailored assistance for those customers. We implemented the 2010–2015 Payment Assistance Strategy, which we developed in consultation with Sydney Water’s Customer Council. This ensures our program applies industry best practice and meets the needs of customers experiencing hardship, now and in the future.

Under the BillAssist® program, our team of qualified professional case coordinators work with residential customers experiencing financial hardship. We provide personalised support, advice and payment assistance, and refer customers to other specialist services.

Our business at a glance

Our network



Our services



Proposed prices for customers

Table 1 Summary – key residential prices and price changes (without inflation)

Services	Proposed price in 2019–20	Compared to 2015–16
Water		
Service charge (\$/year)	98.52	-4.9%
Usage charge (\$/kL)	1.97	-13.9%
Wastewater		
Service charge (\$/year)	582.34	-4.9%
Stormwater		
Service charge (\$/year)		
Single house	76.92	-11.0%
Multi unit	28.21	-11.0%
Rouse Hill		
Stormwater service charge (\$/year)	No price changes in stormwater and land charges. Consumer price index (CPI) to apply to the current prices.	
Land charge for new properties (\$/year)		
Recycled Water		
Usage charge (\$/kL)	1.77	-2.9%
Other		
Ancillary and miscellaneous services	No major change in majority of the charges; CPI to apply to the current prices. A few new services proposed.	

Table 2 Summary – key non-residential prices and price movements (without inflation)

Services	Proposed price in 2019–20	Compared to 2015–16
Water		
Service charges (\$/year)		
20mm - single	98.52	-4.9%
25mm	153.93	-24.9%
Usage charges (\$/kL)		
Unfiltered water	1.67	-15.1%
Wastewater		
Service charges (\$/year)		
20mm - single	582.34	-4.9%
25mm	909.91	-44.4%
Usage charge (\$/kL)	1.10	0.0%
Stormwater		
Service charge (\$/year)		
Small or multi	28.21	-11.0%
Medium	76.92	-11.0%
Other		
Trade waste services	No change in majority of the charges; CPI to apply to current prices.	

Table 3 Summary – Residential annual water and wastewater bills with and without inflation

	Current 2015–16	2016–17	2017–18	2018–19	2019–20	Change 2015-16 to 2019-20	% Change 2015-16 to 2019-20
Without inflation							
160 kL/year¹	1,082	996	996	996	996	-86	-7.9%
200 kL/year	1,173	1,075	1,075	1,075	1,075	-99	-8.4%
220 kL/year¹	1,219	1,114	1,114	1,114	1,114	-105	-8.6%
350 kL/year	1,516	1,370	1,370	1,370	1,370	-146	-9.7%
With expected inflation (2.5% pa)							
160 kL/year¹	1,082	1,021	1,046	1,072	1,099	18	1.6%
200 kL/year	1,173	1,102	1,129	1,157	1,186	13	1.1%
220 kL/year¹	1,219	1,142	1,170	1,200	1,230	11	0.9%
350 kL/year	1,516	1,404	1,439	1,475	1,512	-4	-0.3%

Note: Bills exclude stormwater drainage charge

¹ The water consumption of 160kL/year and 220kL/year is the average consumption of residential multi premises and metered single houses, respectively.