

Appendix 2

Price regulation of Sydney Water's sewerage services and IPART process

The price regulation of Sydney Water's sewerage services by IPART is set out in Appendix A of Sydney Water's submission to the NCC dated 8 June 2004 and is outlined in more detail below as follows:

- Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* ("**IPART Act**") provides IPART with a standing reference to conduct investigations and make reports to the Minister on the determination of the pricing for a government monopoly service supplied by a government agency specified in Schedule 1 of the IPART Act.
- Sydney Water is listed as a government agency for the purposes of Schedule 1 of the IPART Act. Accordingly, IPART may determine the prices for Sydney Water's monopoly services.
- The services of Sydney Water that have been declared as monopoly services under the *Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997* are:
 - (a) water supply services,
 - (b) sewerage services,
 - (c) stormwater drainage services,
 - (d) trade waste services,
 - (e) services supplied in connection with the provision or upgrading of water supply and sewerage facilities for new developments and, if required, drainage facilities for such developments,
 - (f) ancillary and miscellaneous customer services for which no alternative supply exists and which relate to the supply of services of a kind referred to in paragraphs (a) to (e), and
 - (g) other water supply, sewerage and drainage services for which no alternative supply exists.

Clause 12 of Sydney Water's Operating Licence states that "*Sydney Water must set the level of fees, charges, and other amounts payable for its services subject to the terms of this Licence, the Act and the maximum prices and methodologies for Sydney Water's Services determined from time to time by IPART.*"

Under section 15 of the IPART Act, in determining the pricing of these services provided by Sydney Water, IPART must have regard to the following matters (in addition to any other matters that IPART considers relevant):

- (a) the cost of providing the services concerned,
- (b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services,
- (c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales,

- (d) the effect on general price inflation over the medium term,
- (e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
- (f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the Environment Administration Act 1991) by appropriate pricing policies that take account of all the feasible options available to protect the environment,
- (g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets,
- (h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body,
- (i) the need to promote competition in the supply of the services concerned,
- (j) considerations of demand management (including levels of demand) and least cost planning,
- (k) the social impact of the determinations and recommendations,
- (l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

Following a public review process IPART determined (Determination No. 4, 2003, 23 May 2003) the maximum prices that Sydney Water may charge, to apply from 1 July 2003 for water, wastewater and drainage services. This Determination expires on 30 June 2005.

IPART explains the complexity of the divergent factors taken into account in Determination No 3 (page 5) as follows:

In reaching its decisions on water, wastewater and stormwater issues, the Tribunal had to weigh the diverse needs and interests of Sydney Water's stakeholders against each other. For example, Sydney Water's customers need an affordable water supply and acceptable service standards. The general community needs water services to be supplied in a way that is sustainable in the long term, does not compromise Sydney's environment, and is economically efficient. Sydney Water needs prices that are high enough to ensure its financial viability and enable it to earn an appropriate rate of return on its assets, and signal the costs to customers to encourage efficient resource use.

In addition, the price review took place during one of the worst droughts in New South Wales' history and at a time of heightened concern about water supply and demand imbalances, and appropriate investment in renewals and maintenance of the water, wastewater and stormwater systems.

The diversity of these interests and concerns often required the Tribunal to trade off customer affordability issues with environmental impacts and the maintenance of the overall quality of Sydney Water's service delivery, in addition to considering the financial viability and dividend payments of the business. It took active steps to ensure that these trade-off decisions were well informed during the course of its review. It also intends to seek further information from Sydney Water at future price reviews, on environmental and customer preferences where this was highlighted as deficient in Halcrow's review.

IPART describes its decision making process as follows:

The Tribunal's review included an extensive investigation and public consultation. As part

of this review, the Tribunal:

- released an issues paper in June 2002;
- invited Sydney Water to provide a submission detailing its pricing proposals, and required it to provide extensive financial and performance data on the future capital and operating expenditure it believes will be necessary to maintain customer service levels and respond to regulatory and customer demands;
- invited other interested parties to respond to Sydney Water's submission, and received 30 written responses (see Appendix 1 for a list of respondents);
- held a public hearing on 28 November 2002 and invited some of the parties who submitted written responses to present their submissions at this hearing;
- engaged Halcrow Pacific Pty Ltd (Halcrow) to conduct a review of Sydney Water's capital expenditure, asset management and operating expenditure submissions across its water, wastewater and stormwater businesses;
- gave Sydney Water the opportunity to respond to the Halcrow review, both formally in writing and through direct meetings between representatives of Sydney Water and the Tribunal Secretariat;
- engaged GHD Pty Ltd (GHD) to review Sydney Water's proposals in relation to trade waste prices;
- gave Sydney Water the opportunity to respond in writing to the GHD review.

In addition, the Tribunal explicitly considered all the matters outlined in section 15 of the IPART Act.

Determination No. 3 determines prices for all services provided by Sydney Water described by *Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997*. In relation to sewerage services, IPART has specified maximum prices for 6 categories of services:

- services provided to residential properties that are connected to the Corporation's sewerage system;
- services provided to non-residential properties that are connected to the Corporation's sewerage system;
- services provided to unconnected properties;
- Blue Mountains septic pump out services;
- services provided to exempt properties that are connected to the Corporation's sewerage system; and
- sewage extraction (ie sewer mining).

In relation to recycled water pricing, the Tribunal found that it will not set a recycled water price for customers outside the Rouse Hill Development Area, but has required Sydney Water to develop recycled water pricing principles for the 2005 price review.

IPART is presently carrying out its 2005 price review. The outcome of the review will set maximum prices for Sydney Water from 1 July 2005.

Sydney Water is presently preparing its submission to IPART for this review.