

Our Water, Our Voice Customer Engagement

Phase 6 of Sydney Water's Our Water, Our Voice customer research program engaged a panel of 50 customers in an intensive exploration of key topics, requiring analysis and decisions from the panel. This final phase spanned four weekends in February and March 2024. Participants engaged in discussions and collectively made decisions on future pricing structures and mechanisms for ensuring Sydney Water's accountability, among other water bill price related topics.



The insights gathered from our customer panel will play a pivotal role in shaping Sydney Water's proposed services for the next five years. These insights form the cornerstone of our pricing proposal to the Independent Pricing and Regulatory Tribunal (IPART), scheduled for submission in September 2024. Our Water, Our Voice remains integral to Sydney Water's ongoing strategy for customer engagement, guiding our evolution towards a wholly customer-driven organisation.

What is a price review?

SYDNEY WATER

A price review is part of Sydney Water's cyclical regulatory requirement to IPART. Every five years we develop a price proposal for submission that reflects the efficient cost of providing our services. The priorities and expectations of our customers and community are at the foundation of our price proposal through customer engagement.

IPART

IPART sets the framework for the price review and makes a pricing determination every five years for the maximum price for drinking water and wastewater services that Sydney Water provides. IPART's final decision reflects the efficient cost of providing our services with the priorities and expectations of our customers and community at the foundation.

CUSTOMERS AND COMMUNITY

As end users of our services – including drinking water, wastewater, and stormwater – our customers and the community engage with us to ensure their priorities and expectations are reflected in the price proposal. This means we're all on the same page.

What was Phase 6 about?

Phase 6 took a deep dive into how customers are charged for Sydney Water's services, including pricing structures and price control. Here, informed panel members had an opportunity to talk to us directly on fairness and affordability. Additionally, it examined fairness and affordability around how customers are charged for Sydney Water's services, including pricing structures and price control. This phase also assessed customer appetite for Sydney Water to include customer-led performance targets, also called customer commitments, into its strategic business plan.

Research objectives for Phase 6

Phase 6 had six key objectives. We wanted to:

- shape, guide, and improve how Sydney Water charges our customers for the services they need and value.
- collaborate closely with customers to understand and address concerns and aspirations.
- collaborate with customers across the decision-making stages, including development of alternative plans and identifying customers' preferred options or solutions.
- explore several pricing structure options and establish a customer preference.
- investigate customer preferences regarding performance targets for specific priorities and decide whether customer commitments form part of Sydney Water's strategic business plan moving forward.
- reach a majority consensus about how Sydney Water charges for its services for the next regulatory period (2025-30).

The L-Scale

Given the complexity of the issues discussed, it was recognised that absolute consensus would be difficult to achieve. Participating customers agreed to use the L-Scale to help them reach some conclusions about the issues discussed. The L-Scale divides participants into four groups on any given issue:

Those who **Loathe It**

Those who can **Live with It**

Those who **Like It**

Those who **Love It**

ACCEPTANCE

Consensus was agreed with participating customers as having no more than 20% of participating customers loathe an option and at least 80% of participants accept it (ie. live with it, like it, or love it).

Phase 6, what we did

Phase 6 mirrored Phase 5, with the same customers participating over four days over four weekends.

DAY 1

The panel deliberated on the fairness of Sydney Water's current billing practices, concluding that they are fair. Subsequently, customers were equipped with tools (such as eight fairness windows and the L-Scale) to guide discussions on later topics.

DAY 2

Our customers were well-informed on four distinct pricing structures that Sydney Water could adopt for its services. Two options were swiftly dismissed by customers, motivating a detailed deliberation on the remaining two: a flat structure versus a tiered structure.

DAY 3

The concept of customer commitments was introduced, referring to Sydney Water making a commitment to financial penalties and incentives tied to a performance target for the next five years. The panel were asked if they would like Sydney Water to make customer commitments on delivering priorities including improvements to water leakage and river health. Customers were also asked what the measures for success would look like for Sydney Water.

DAY 4

The panel discussed pricing options and price control including what happens when Sydney Water collects too much or too little revenue from customers to fund its services.

Customers also made final recommendations for Sydney Water on water pricing structure, price control and customer commitments based on their desire for fairness and transparency, price stability and their alignment with water conservation values. Sydney Water will consider all of our customer recommendations in preparing the upcoming price proposal to IPART.

Fairness windows

Customers were asked to evaluate the information presented to them while keeping the following eight fairness windows in mind:

'USER PAYS'

Customers pay what it costs regardless of their circumstances.

AFFORDABILITY

Prices should be affordable for everyone.

COST REFLECTIVITY

Prices should only reflect the cost of service.

SERVICE GUARANTEE

Customers should be compensated if Sydney Water doesn't deliver the service.

SIMPLICITY

The way in which customers are charged should be clear.

CONTROL

Customers should be able to influence how much they must pay.

PREDICTABILITY/STABILITY

Customers' ability to budget means predictability of bills is critical.

CONSERVING PUBLIC RESOURCES

Water is precious and should be conserved.

Pricing structures

Four pricing structures for water usage were presented to customers:

- 1 Fully fixed (all customers pay the same price)
- 2 Flat (the cost per kilolitre of water is the same no matter how much is used)
- 3 Tiered (the cost per kilolitre of water increases the more is used)
- 4 Fully variable (dependent only on usage)

Customers agreed to remove the fully fixed and fully variable models from discussion, as they were seen as either too complex or unfair. They were also considered to negatively affect specific customers, such as large households and renters. Customers were then asked to choose between the two remaining structures.

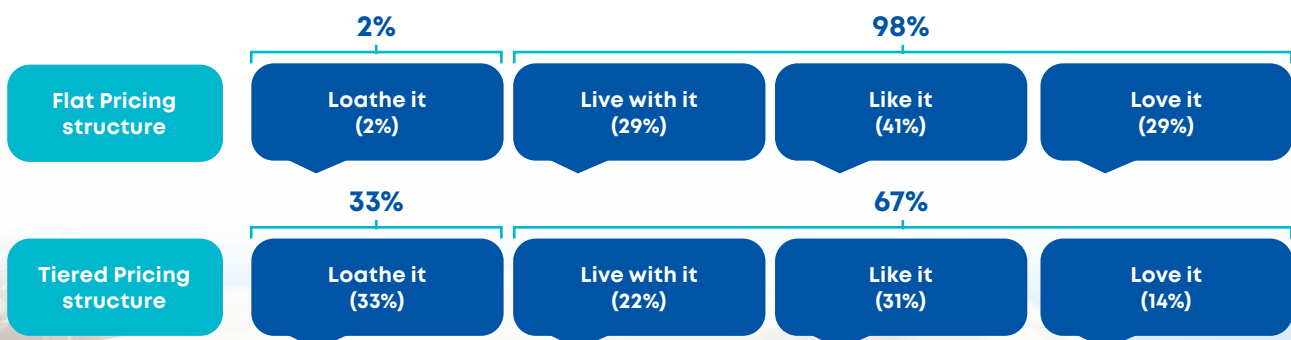
Flat Pricing Structure

All users pay the same rate per kilolitre of water, regardless of how much they use. This structure simplifies billing and encourages water conservation. This is Sydney Water's current pricing structure for water usage.

Tiered Pricing Structure

In a tiered pricing structure, the cost per kilolitre of water increases as usage goes up. This means that the more water a customer consumes, the higher the cost per unit becomes. This structure aims to improve affordability for lower water users.

Vote using the L-Scale



The overwhelming majority of customers loved, liked, or could live with continuing the flat pricing structure currently in place, the flat pricing structure was viewed by the customer panel as the simplest and fairest pricing structure.

Customer Commitments



By establishing Customer Commitments, Sydney Water can further demonstrate the organisation's evolution towards a customer-led organisation, dedicated to addressing the specific needs and expectations of our customers and community. This framework improves transparency, accountability, and alignment with customer priorities.

To demonstrate our commitment to transparency and accountability, Sydney Water would agree to take a financial penalty (reflected in lower customer bills) for failing to meet performance targets. Equally, exceeding Customer Commitments targets would result in a financial reward to Sydney Water (reflected in higher customer bills).

During discussions, participants were asked: do they support the concept of Customer Commitments? The majority response was yes, with 68% of the customer panel expressing support.

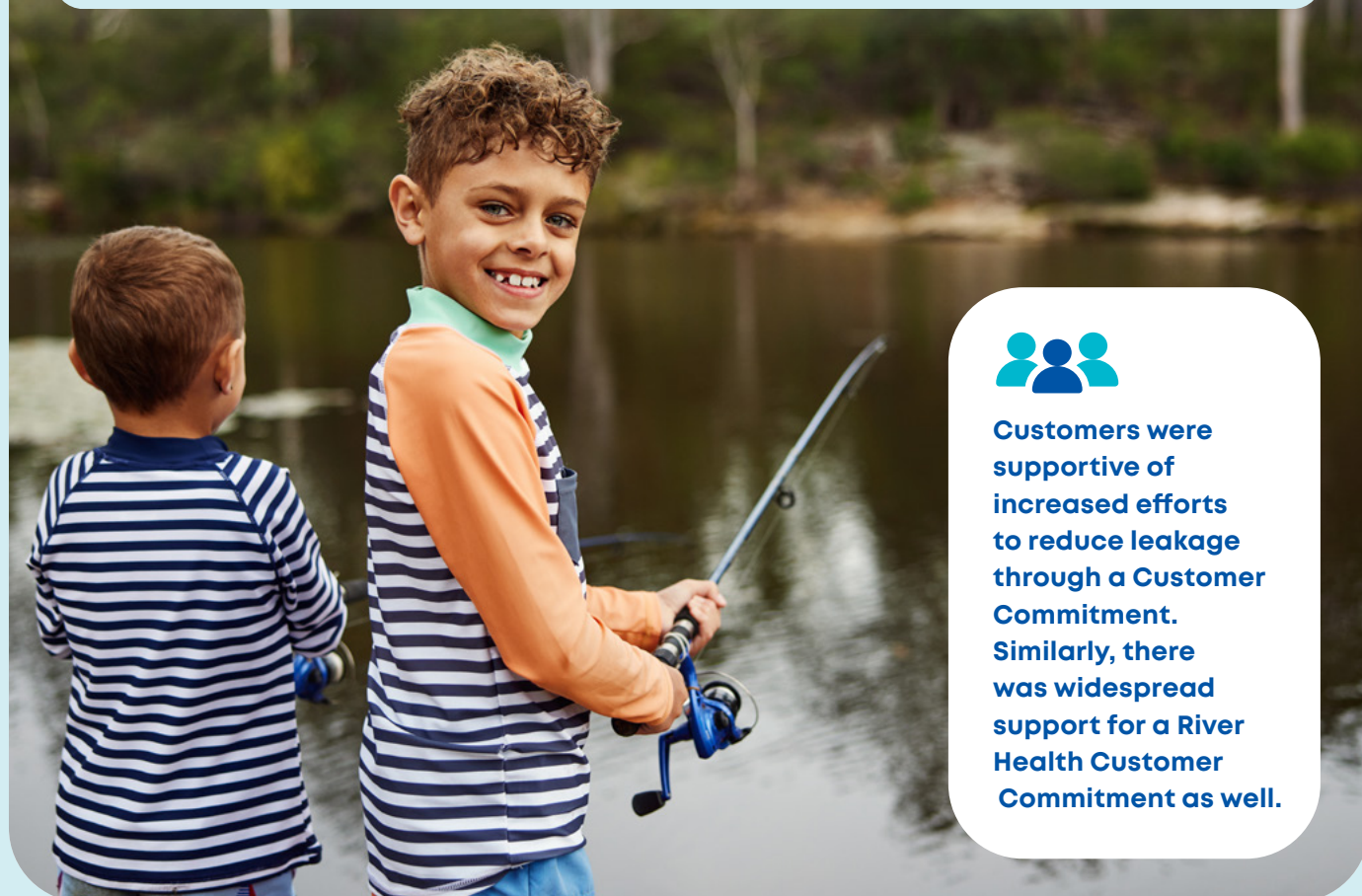
Subsequently, customers were polled on their support of performance targets for two specific customer priorities, using the L-Scale to gauge their feedback.

- 1 Water Leakage:** Sydney Water commits to reduce water leakage to 106 megalitres a day by 2028-29.
- 2 River Health:** Sydney Water could spend an extra 2% on environmental improvements, to reduce nitrogen pollution by about 3%, through 20 restored riverbank sites and through saving over 22,000 tonnes of sediment.

Customer Commitment	Loathe it	Live with it	Like it	Love it
Water leakage	15%	34%	36%	15%
River Health	13%	33%	35%	20%



Customers were supportive of increased efforts to reduce leakage through a Customer Commitment. Similarly, there was widespread support for a River Health Customer Commitment as well.



Price controls

The price customers pay for products and services changes over time. Unlike most other goods and services, however, Sydney Water's price changes are governed by the Independent Pricing and Regulatory Tribunal (IPART), ensuring a regulated price-setting process. This means that, if Sydney Water collects more revenue than expected, it will be returned to customers through lower bills in the subsequent pricing period, and, if it collects less than expected, it will increase bills in the following pricing period.

Currently, Sydney Water operates under a price cap framework, which spans five years. During discussions, participants were asked whether they favoured Sydney Water remaining under a price cap or transitioning to a revenue cap. Unlike a price cap, a revenue cap would adjust bills annually based on over- or under-collected revenue.

Customers indicated their preferences using the L-Scale, revealing substantial support for both regulatory models. From the results shown below, nearly all customers (96%) loved, liked or could live with a Price Cap and 90% loved, liked or could live with a Revenue Cap.

However, when asked to choose between the two options, more favoured the revenue cap model.

Price Cap

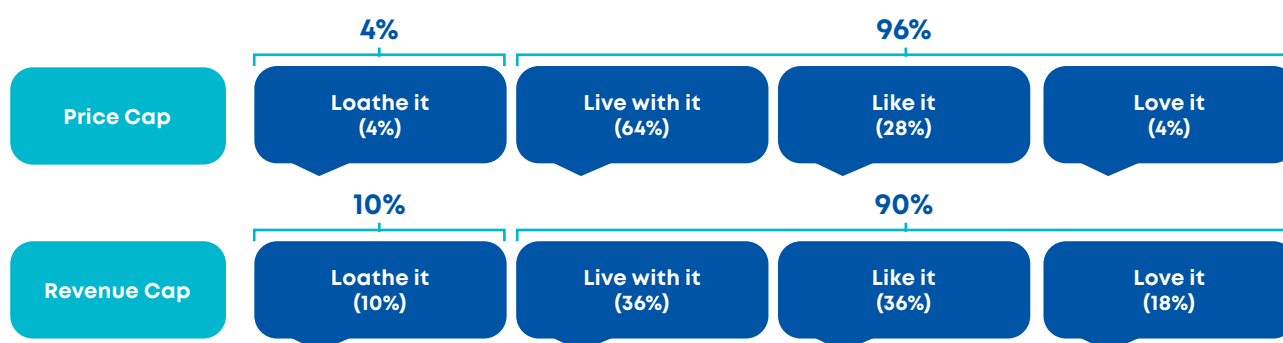
36%

Revenue Cap

64%

Customers viewed the faster turnaround in applying price changes due to over- or under-recovery by the revenue cap model to be favourable, and the lower year-to-year price changes as fairer.

Despite indicating this preference, customers didn't have a strong desire to change from the price cap model. 96% of participants loved, liked or could live with either option. This was because any over-recovery would be addressed in the following regulatory period, hence, not requiring any immediate need for a change.



Next steps

Over the past two years, Sydney Water has engaged with thousands of customers, like you, to understand what customers know about Sydney Water, and to understand from you what you value most when it comes to our water services. Hearing from you has been extremely valuable, as it not only shaped our long-term strategic plans, our investments, and our price proposal to IPART, but is also helping Sydney Water develop capabilities to ensure we can deliver on our commitments to our customers, now and into the future.

While we have now come to an end of this stage in our customer engagement as part of Our Water, Our Voice, our wider customer engagement program will continue and there will be many opportunities for you to share your thoughts with us in the future. We value your insights to lead us in delivering what matters most to you.

Sydney Water thanks the participants of Phase 6 and everyone who has been involved in Our Water, Our Voice over the past two years. If you wish to learn more about how your priorities and insights have informed Sydney Water's long-term plans, please visit [Long Term Capital and Operational Plan](#). You can also learn more about Sydney Water's customer engagement program at [Customer Engagement Strategy](#).

Sydney Water will lodge its price proposal with the Independent Pricing and Regulatory Tribunal (IPART) in September this year. IPART will undertake an independent public consultation process, providing multiple opportunities for communities to have their say. Toward the end of 2024, IPART is expected to hold a public hearing where customers and communities can present their views, followed by a draft determination of prices early next year that will provide a further opportunity for public comment. Final IPART-determined prices will take effect from 1 July 2025.