

4 March 2005

Dr Michael Keating
Chairman
Independent Pricing and Regulatory Tribunal
Level 2
44 Market Street
SYDNEY NSW 2000



Dear Dr Keating

*2005 Metropolitan Water Agency Prices
Consumer Choice and Value for Money*

We refer to our December submission in relation to the Tribunal's investigation of the 2005 Metropolitan Water Agency Prices.

We informed the Tribunal of an Economic Appraisal for Services Sydney by expert water economists, Marsden Jacob Associates of Melbourne.

The NSW Government's Metro Water Plan was released late in October 2004. We completed the comprehensive appraisal by the end of January 2005.

The appraisal sets out the benefits and costs of our plan called 'Waterworks', against the benefits and costs delivered by the Metro Water Plan and Sydney Water's WaterPlan 21.

Waterworks is an extension of our earlier 'Sustaining the City' proposal (which we presented to the Tribunal in December 2003). The Waterworks proposal includes the ability to pulse high quality reclaimed water to rivers, should this be required.

Outcomes of the appraisal are listed in Marsden Jacob's Attachment to this letter.

In essence, Marsden Jacob found that:

- The sustainable water yield of Sydney may be materially overstated by ignoring the effects of global warming and downward climate shifts;
- The direct costs for Waterworks are several hundred million dollars **less** than the Metro Water Plan and WaterPlan 21, despite Services Sydney absorbing significant 'integration costs'. (The latter was determined by Sydney Water during the earlier independent Anderson Review for the NSW Government);
- Waterworks provides better long term social and environmental outcomes for Greater Sydney and the Shoalhaven;
- Waterworks provides better security and reliability of water supply with a buffer against climate shifts and global warming;

- Current water restrictions in Sydney have no continuing economic or moral basis if Waterworks is implemented;
- Water restrictions damage the economy (around \$ 2.5 billion NPV at a 7% discount rate over 30 years); and
- Water restrictions reduce the income of Sydney Water and also State Tax receipts.

Where doubt existed, Marsden Jacob used figures supportive of the Metro Water Plan and WaterPlan 21.

For example, the Appraisal uses an unrealistic 100% success rate with all demand management measures as used in the Metro Water Plan and recommended by the Hawkesbury Nepean River Management Forum.

Such assumptions make the economic model conservative and robust.

The sensitivity of various variables (such as discount rates, environmental flows, demand management success, irrigation extraction etc.) were rigorously tested. The results confirmed a net benefit to Waterworks.

Accordingly, the appraisal underwrites our water reclamation proposal as better 'value for money' for consumers over those initiatives proposed under the Metro Water Plan and WaterPlan 21. Those alternative initiatives include:

- Increased water transfers from the Shoalhaven that threaten yet another river and economy. Here we note the concerns of the Seafood Industry Council, Nature Conservation Council and Total Environment Centre;
- Environmental flows to rivers only when surplus water is available;
- Continued ocean dispersal of preliminary treated sewage from the Major Ocean Plants against significant opposition of most consumers; and
- Investigations to implement the most expensive source of water in terms of cost and the environment (desalination) against the open criticism of consumers.

A truly sustainable water system does not:

- entrench ocean disposal of preliminary treated sewage;
- take more water more often from other river systems;
- provide environmental flows only to rivers when surplus water is available; and
- investigate desalination when re-use is at less than 3%.

If Waterworks is implemented there are significant avoided costs for consumers such as ongoing expenditures and maintenance outlays associated with the dilapidated assets of Sydney Water.

In summary, Marsden Jacob found that Waterworks is a comprehensively superior option based on Triple Bottom Line outcomes.

It will leave a lasting legacy for future generations and ensure they pay off infrastructure mortgages that are sustainable.

Accordingly, Services Sydney further submits to the Tribunal that:

- A valid lower cost alternative in Waterworks is available for consumers in Sydney (and the Shoalhaven); and
- Forward expenditures can only be recommended for (water) plans that are supported by consumers.

In this regard, Services Sydney is unaware of any evidence that the Metro Water Plan and WaterPlan 21 are preferred by consumers, or that these plans were subjected to robust benefit cost appraisals in accordance with NSW Treasury requirements prior to their release.

Kindly contact us should the Tribunal require more information.

Yours faithfully
Services Sydney Pty Ltd



John van der Merwe
Director

Attachment

Copy: Mr James Cox, Chief Executive Officer – IPART

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Attachment - Qualitative Assessment

Criteria	Metro Water Plan	Waterworks
Environmental		
E-Flows	Obligation likely to be set aside with residual water only being available	H-N obligations exceeded; implicit Shoalhaven obligations recognised
Ability to pulse flows	No	Yes
Nutrients	N & P levels critical since flow regime will remain low	Less than or equal to likely EPA levels set for low flow (MWP) regime in H-N, although Waterworks will result in high flow regime
Shoalhaven River	Loss of high flows, (although low flows increased) resulting in reduced variability, salt water intrusion, sedimentation, changed geomorphology	No impact
Shoalhaven Dam	Shifts requirement for new dam from Sydney to Shoalhaven region and customers - poor equity and efficacy	Minimises requirement for new dam
Ocean outfalls	Continued discharge of major proportion of sewage flows	Minimises outfalls
Desalination	Desalination likely to be essential, discharge of brine stream, locational impacts	None required
Government Policy		
Water conservation	Limited use of reclaimed water	Maximises use of reclaimed water
Shoalhaven EIS	Previous EIS and Development Approvals appear to have been set aside	None required
Health	Reduced overflows	Greater reduction in overflows with alternative storage and treatment configuration
Equity		
Cost shifting	Cost shifting between regions and customers is extensive but largely hidden	Avoids cost shifting between regions & customers
Water Security		
New supplies	Continued reliance on rainfall except for higher cost desalination	High security water
Risk	Supply varies with variability in rainfall and temperature - increases risk of restrictions and low e-flows	Reduced due to diversification of supply; reduced risk of restrictions and not meeting e-flows
Capacity for augmentation	Modular with desalination	Modular with capacity to treat up to 1,400 ML/d
Financial Impacts		
Customers	Higher cost, reduced service standards (due to greater restrictions), poorer environmental outcomes in rivers and ocean	Lower cost for improved environmental outcomes
SWC/SCA	Reduced revenue and profit flows due to reduced reliability and higher costs	Avoids need for restrictions
Government	Large capital cost required - economic activity likely to be constrained by restrictions	Large capital cost required - able to be largely funded private sector. Economic activity not hamstrung by water restrictions
Economic Impacts		
Community cost	Higher community cost and poorer social and environmental outcomes	Lower community cost for improved environmental and social outcomes