

FACT SHEET

Review of prices for the Sydney Catchment Authority from 1 July 2012 to 30 June 2016

Based on Final Report and Determination, June 2012

On 19 June 2012, IPART released its decision on the maximum prices of the Sydney Catchment Authority (SCA) for providing water services to its customers from 1 July 2012 to 30 June 2016. The final report is available on www.ipart.nsw.gov.au.

SCA is the main supplier of water in the Sydney region. It manages and protects Sydney's drinking water catchments and catchment infrastructure such as dams.

SCA supplies water to Sydney Water and 3 local councils and some smaller customers. Because SCA's price changes have changed only minimally, they will have a small impact on the water and sewerage bills for a typical water customer.

1 SCA's prices increase slightly more than inflation

We have set SCA's prices to meet the revenue that SCA requires for its efficient costs of delivering water. In 2012/13, the first year of the Determination, required revenue will decrease by 7.5%¹. Prices will then increase slightly more than inflation over the remainder of the determination period.

We have allowed SCA to recover efficient costs associated with:

- ▼ forecast water transfers from the Shoalhaven River (about 1.4% of operating costs)
- ▼ the Australian Government's carbon price scheme which will commence on 1 July 2012 (about 1.9% of operating costs²).

We have applied an annual efficiency target of 0.3% to SCA's operating expenditure to encourage SCA to continue achieving efficiencies.

¹ The main reason for the reduction in required revenue in 2012/13, the first year of the determination period, is our move to a post-tax weighted average cost of capital (see IPART, *The incorporation of company tax in pricing determinations - Final Decision*, December 2011). This explains 5.3 percentage points of the 7.5% decrease in SCA's required revenue in 2012/13.

² Australian Treasury has estimated that carbon pricing will increase the CPI by 0.7% in 2012-13. However, cost impacts will vary by industry. Carbon price costs are proportionately higher for SCA because of Shoalhaven pumping - this activity increases SCA's energy use and thus direct carbon price costs (ie, SCA is more energy intensive than average businesses).

2 SCA's price structures change

2.1 Prices to Sydney Water

SCA's sales to Sydney Water are reduced when the Sydney Desalination Plant (SDP) is operating. We have set different volumetric charges that apply to Sydney Water when SDP is operating and when it is not. These different prices manage the risks to SCA's revenue from the uncertainty in SDP's operation.

Prices to Sydney Water will have a larger fixed cost component than in the past. 80% of SCA's revenue will be recovered through a fixed charge, rising from 40% in previous determinations. This better reflects SCA's large fixed costs of managing dams and water infrastructure, and is justified due to SCA's dependence on one customer.

We consider that these pricing decisions manage SCA's revenue risk over the 2012 determination period and ensure that customers pay no more than necessary to meet SCA's costs.

We have aligned the volumetric price for SCA's dam water more closely with SCA's variable costs, which we consider to be consistent with a possible future approach to wholesale scarcity pricing.

However, we have made a decision not to introduce scarcity pricing, when prices vary inversely with storage levels to reflect the availability of dam water. Many of the objectives of this form of pricing are being achieved through the 2010 Metropolitan Water Plan, including the operation of the Sydney Desalination Plant.

2.2 Prices to local councils and smaller customers

After considering the outcomes of consultation between SCA and its 3 local council customers, we have set SCA's prices to local councils to reflect the costs of providing water to these customers. Prices will increase on average by 0.5% in 2012/13, which is less than inflation, and then move in line with inflation over the remainder of the determination period.

We have also introduced a new approach to charging councils: 25% of SCA's revenue from councils will be recovered through a fixed charge, and 75% through a volumetric charge. This replaces the current 100% volumetric charge.

Prices for SCA's bulk raw and unfiltered water customers will increase at the rate of inflation over the determination period, as proposed by SCA.