

Our reference: 07/519

PO Box Q290, QVB Post Office NSW 1230
Level 8, 1 Market Street Sydney NSW 2000
T (02) 9290 8400 F (02) 9290 2061
ABN 49 202 260 878

10 November 2009

www.ipart.nsw.gov.au

Dr Kerry Schott
Managing Director
Sydney Water Corporation
PO Box 399
Parramatta NSW 2124

Contact Richard Warner
T (02) 9290 8406
E richard_warner@ipart.nsw.gov.au

Dear Dr Schott,

SYDNEY WATER'S COST ALLOCATION MANUAL

Thank you for submitting your Cost Allocation Manual (the **Manual**) for your declared services to IPART in November 2008. Under the *Water Industry Competition Act 2006* (the **Act**), IPART may approve this Manual as submitted, or may require Sydney Water to amend it and resubmit it for approval.

We have reviewed the Manual and request under section 42(4) of the Act that Sydney Water amend it to address the **attached comments**. In general, the attached comments reflect our view that the Manual should provide more information on Sydney Water's proposed cost allocation methodology, including:

- ▼ a clearer and more comprehensive explanation of how costs are to be allocated under this methodology; and
- ▼ further explanation of the rationale for each means of allocation, with reference to relevant cost allocation principles (such as those outlined in IPART's Draft Cost Allocation Guide).¹

In reviewing the Manual and writing the attached comments, we have been conscious of the need to ensure that the Manual provides sufficient explanation of Sydney Water's proposed cost allocation methodology, while also not burdening Sydney Water or potential access seekers with too much detail or unnecessary information. We consider that the purpose of the Manual is to clearly explain Sydney Water's proposed method of allocating costs to its declared services and its rationale or justification for this methodology so as to enhance:

- ▼ the process of negotiation between Sydney Water and access seekers on the terms of access; and/or
- ▼ a determination on the terms of access – if IPART is called upon to arbitrate a dispute between Sydney Water and an access seeker.


¹ The attached comments also respond to Sydney Water's queries regarding the establishment of its 'Corporate' Regulatory Asset Base (RAB) at the last retail price determination (per letter from Stuart Wilson, 29 May 2009).

We note that an Inter-Agency Working Group² has been established to examine a number of issues related to retail price determinations, including the structure of sewerage prices. Given its potential relevance to cost allocation, Sydney Water may wish to await the outcome of the Working Group's deliberations on sewerage pricing so that these may be incorporated in an amended version of the Manual when it is submitted to us for review.

We would like to draw your attention to the fact that nothing in this letter or our comments constitutes, or should be taken to be, either an approval of the Manual or a decision that binds IPART in relation to any of the content of the Manual.

If you would like to discuss this letter or the attached comments, please contact Richard Warner, Program Manager Water, by telephone on 9290 8406.

Yours sincerely

A handwritten signature in black ink that reads "James Cox". The signature is written in a cursive style with a large, stylized 'J' and 'C'.

James Cox
Acting Chairman and Chief Executive Officer

² Comprising representatives from IPART, Sydney Water, Hunter Water, Gosford City Council and Wyong Shire Council.