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Mr James Cox
Chief Executive Officer
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Dear Mr Cox

State Water's comments on the draft determination for Sydney Catchment Authority

State Water welcomes the opportunity to comment on IPART's draft determination and report containing draft prices for Sydney Catchment Authority (SCA).

Following review of the Draft Determination and Report, State Water seeks clarification from IPART on its position for the most appropriate sustainable bulk water tariff structure.

In seeking this clarification, State Water notes the decision to base SCA's pricing on the short run marginal cost of water supply by moving from a 40 per cent fixed charge for Sydney Water to an 80 per cent fixed charge, in conjunction with the use of a lower equity beta range of 0.6 – 0.8 in the Weighted Average Cost of Capital (WACC) calculation. IPART comments in the draft report that,

"the 80:20 price structure is consistent with SCA's proposal and is considered appropriate because it better reflects SCA's underlying cost structure, given that SCA is largely a fixed cost business".¹

It is State Water's observation that a higher fixed to variable ratio is consistent with the tariff structures of other bulk water authorities including Goulburn-Murray Water, Lower-Murray Water and SunWater. However, higher fixed charges differ to

¹ IPART 2012, *Review of Prices for the Sydney Catchment Authority*, p.35

State Water's 40:60 fixed to variable regime (60:40 for the North Coast and Hunter valley) mandated in IPART's 2010 Final Determination of State Water's prices.

In its report, IPART further comments that the SCA's current 40:60 split was a 'holding' option for the 2009 determination, based on the transitional operating environment at that time due to the development of the Sydney Desalination Plant (SDP) operating rules and the 2010 Metropolitan Water Plan. As such, State Water seeks clarification on IPART's current position on what is the most appropriate and sustainable tariff structure for bulk water services, giving consideration to variables outside the control of the water authority (e.g. SDP operations, variable rainfall patterns) that impact its ability to recover revenue through charges.

If you wish to discuss please contact Gillian Eckersley, Regulatory Analyst on 02 8245 2085, or gillian.eckersley@statewater.com.au.

Yours sincerely



Brett Tucker
Chief Executive Officer