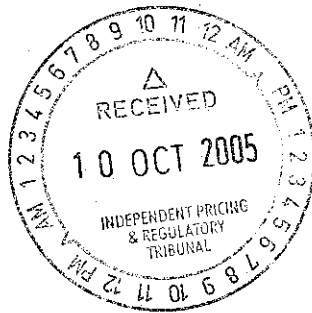


IPART
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Ref: D2005/08175

Dr Michael Keating
Chairman
Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
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Dear Dr Keating

Thank you for the opportunity to respond to IPART's Draft Report on the *Investigation into Water and Wastewater Service Provision in the Greater Sydney Region*.

The SCA supports the adaptive management approach suggested by IPART bearing in mind the considerable investment in water supply infrastructure being undertaken as part of the Government's Metropolitan Water plan.

The attachment contains a detailed response to recommendations from the report, focusing on matters relevant to the SCA.

Yours sincerely

6.10.2005

GRAEME HEAD
Managing Director

IPART draft recommendations and SCA response to IPART

No.	IPART's draft recommendation	SCA response to IPART
1	That the Government require water authorities in the Greater Sydney metropolitan area to use competitive sourcing to procure additional water supplies.	This should be subject to an appropriate pricing regime being implemented, which for example takes into consideration the potential for stranding of assets.
2	That the Government require each water authority in the Greater Sydney metropolitan area to separate its competitive sourcing activity from the rest of its operations.	The SCA will continue to supply water at least cost, and has in place strategies for competitively sourcing water services.
5	<p>That the Government incorporate the Tribunal's recommended framework in the access regime. This framework comprises:</p> <ol style="list-style-type: none"> 1. A regulatory mechanism that enables: <ol style="list-style-type: none"> a) designated people, who could be: <ul style="list-style-type: none"> - any person, - a market participant, or - a prospective users (<i>sic</i>) b) to seek access to all water and wastewater infrastructure: <ul style="list-style-type: none"> - that may be specified at the inception of the access regime, or - that meets certain criteria (based on the current Trade Practices Act 1974 tests) c) Contracting freedom for the access seeker and asset owner, provided system integrity, operation, health, etc not jeopardised <ul style="list-style-type: none"> - Also, possibly, a statutory contract override mechanism if the Tribunal considers contracts to be inconsistent with the Tribunal's regulatory guidelines on access pricing d) The access seeker and asset owner subject to arbitration by the Tribunal if agreement cannot be reached 	<p>SCA proposes that to reduce compliance costs, IPART needs to establish that new entrants are genuine in their intentions to enter the market.</p> <p>SCA would support a definition of assets consistent with IPART's current definition of its Regulatory Assets.</p> <p>The SCA concurs with IPART's recommendation.</p> <p>The SCA concurs with IPART's recommendation.</p>

No.	IPART's draft recommendation	SCA response to IPART
	<p>e) Regulatory guidelines or other instrument to be prepared by the Tribunal that:</p> <ul style="list-style-type: none"> - set out its interpretation of relevant infrastructure asset tests that will be used in deciding whether or not assets should be subject to access - establish relevant pricing principles that should be applied in calculating access prices. <p>2. A request or requirement for Sydney Water (and possibly any other access provider) to publish indicative access prices and services.</p> <p>3. A possible contract monitoring program (under which the Tribunal would monitor and audit the access prices in access agreements entered into).</p> <p>4. A future review point for the Tribunal to assess adequacy of access arrangements/regulation (including the scope for extending access-based competition to smaller customers), and inform Government of findings</p>	<p>SCA would wish to respond to any proposed draft asset test guidelines.</p> <p>It is assumed that IPART will allow the recovery of additional costs incurred by agencies in meeting these requirements.</p> <p>SCA again highlights to IPART the inefficiencies created by uncoordinated audit activities. SCA recommends that any audit of access prices be undertaken simultaneously with and coordinated with say, IPART's periodic price review.</p> <p>A sunset clause or periodic review is a sensible approach in any regime. SCA is subject to price path, operating license and water license reviews on a regular basis, and any new entrant should have the access arrangement similarly reviewed.</p>
6	<p>That access to water and wastewater infrastructure be priced according to the Efficient Component Pricing Rule (ECPR).</p>	<p>The SCA concurs with IPART's approach. IPART states that it prefers the ECPR approach largely because it will facilitate the retention of the current postage stamp pricing arrangements. The SCA needs to maintain and operate its water supply infrastructure based on a whole of system approach. Therefore, locational pricing may be inappropriate for the SCA.</p>
9	<p>That the Government improve arrangements for the collection and dissemination of information about the water and wastewater market to better support private sector participation and innovation, and that the Tribunal have regulatory oversight of information arrangements.</p>	<p>This may add to the substantial reporting load on the SCA. Further clarification on the nature of the information required is necessary.</p>

No.	IPART's draft recommendation	SCA response to IPART
11	<p>That the Government ensure that clear and robust guidelines and rules are in place for all potential sources and applications of recycled water, including for:</p> <ul style="list-style-type: none"> • the harvesting and use of urban stormwater • the use of recycled water for a range of key industrial applications • the use of grey water at both the household level and for larger scale applications and uses. 	<p>The SCA would be interested in commenting on such draft guidelines.</p>
13	<p>That the Government develop guidelines for valuing environmental impacts associated with the provision of water services in Sydney, and require that these guidelines be applied across all decision makers and government agencies (including DEC, DIPNR, IPART and Sydney Water).</p>	<p>The SCA supports IPART's proposed approach.</p>
17	<p>That the Government ensure appropriate regulatory obligations are placed on incumbents and new entrants to protect consumers and the public interest in relation to ensuring security of supply, ensuring water quality, managing environmental impacts, developing, maintaining and extending water and sewerage services, addressing potential effects on customer contracts, and allocating responsibility for managing emergencies and national security matters.</p>	<p>The SCA supports consistent regulation of the SCA and new entrants. However, under any model that leads to decentralised planning, great care should be given to ensuring appropriate incentives and security, so as to encourage efficient and effective investment in the long lived assets needed by a natural monopoly such as the SCA which has the added responsibility of managing the catchments in a sustainable way.</p>
22	<p>That the Government progresses implementation in accordance with a pragmatic approach and timetable that recognises the magnitude of potential improvements that may be gained, the relative ease of effecting change, and a logical sequencing of decisions.</p>	<p>The SCA supports IPART's proposed adaptive management approach. However, it is important that at least some major signposts be established to avoid confusion. In particular consideration needs to be given to how the major infrastructure investments currently being made under the Metropolitan Water Plan will be safeguarded in the future.</p>