



PO Box 323 Penrith NSW 2751
Level 2, 311 High Street
Penrith NSW 2750
Tel 1300 722 468 Fax 02 4732 3666
Email info@sca.nsw.gov.au
Website www.sca.nsw.gov.au

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Dr Michael Keating
Chairman
Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
QVB POST OFFICE NSW 1230

Dear Dr Keating

Thank you for the opportunity to respond to IPART's issues paper on the *Investigation into Water and Wastewater Service Provision in the Greater Sydney Region*. My comments which follow focus on matters relevant to the SCA.

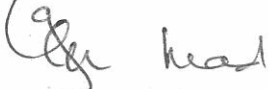
The issues paper discusses yield and uses a graph of total volume of water supplied to Sydney from 1980 to 2003. Yield is based on estimated rainfall and inflows to the storages and the SCA's operating rules. It varies over time and is not static as it reflects natural variations in weather patterns. The graph gives the impression that the concept of the SCA's yield is static and has existed in its present form since 1980. The concept of yield that is currently used is based on the Catchment Infrastructure Works performance criteria that has been part of the SCA's Operating Licence only since 2000.

The issues paper indicates that certain utility sectors are considered to be natural monopolies. These demonstrate significant economies of scale as they require large and long lived investments that cannot be recovered if an entrant leaves the industry. Similarly, the description of a possible single buyer model for Sydney indicates that the SCA "would remain unchanged." From this description the SCA would be considered a natural monopoly in the supply of bulk raw water.

However, the possible single buyer model for Sydney indicates that supply options "may comprise bulk water from the Catchment Authority via the Sydney Water system, water recycling, conservation initiatives, stormwater harvesting and purchase of irrigation water" (page 29). Under such an industry structure, water service retailers seeking bids for bulk water supply would need to be held to long term commitments to avoid the future possibility of stranding bulk water supply assets. 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.

Appendix B of the issues paper discusses the advantages and disadvantages of Efficient Component Pricing Rule (ECPR) in comparison to Long Run Marginal Cost pricing (LRMC) for access. While ECPR may appear preferable it should be noted in this context that in relation to postage stamp versus locational pricing, 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.

Yours sincerely

A handwritten signature in cursive script that reads "Graeme Head".

1.6.2005

GRAEME HEAD
Managing Director