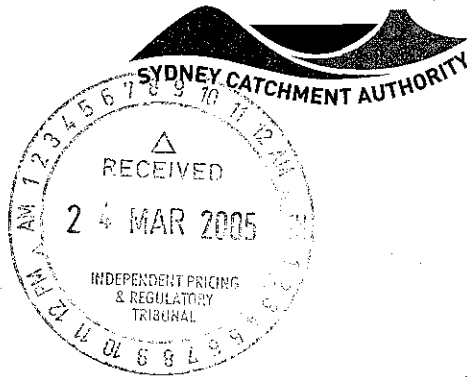
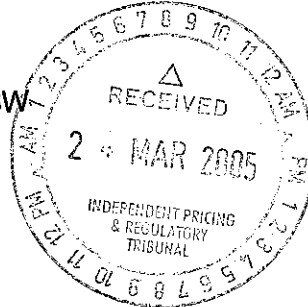


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Ref: D2005/02315

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



Dear Dr Keating

Please find attached a supplementary submission from the Sydney Catchment Authority (SCA) to IPART's current review of metropolitan water agency prices.

The purpose of the supplementary submission is to provide IPART with the SCA's latest capital expenditure projections and water demand forecasts. As flagged in my presentation to the Tribunal, since the SCA provided its submission in November 2004, we have needed to refine our capital expenditure program, in particular to take account of better information related to the SCA's components of the Government's *Metropolitan Water Plan*. Also, in light of the continuing drought, Sydney Water has reviewed its water demand forecasts. For consistency, the SCA has based its revised forecast on Sydney Water's latest projections.

The SCA's pricing proposals were detailed in the November 2004 submission based on the best available information at the time. The SCA requests that in determining future prices IPART take into account the SCA's revised capital expenditure requirements and water demand forecast.

Yours sincerely

  
**GRAEME HEAD**  
**Managing Director**

23 MAR 2005



**Supplementary Submission to  
IPART's  
Review of Metropolitan Water  
Agency Prices**

**March 2005**

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# 1 Introduction

The purpose of this supplementary submission is to provide the Independent Pricing and Regulatory Tribunal (IPART) with the Sydney Catchment Authority's (SCA's) latest capital expenditure projections and water demand forecasts.

The SCA made its main submission to IPART's current review of Metropolitan Water Agency Prices in November 2004. Since then, as part of its ongoing business planning cycle, the SCA has reviewed and further developed its capital expenditure program, in particular implementation of the SCA's components of the Government's *Metropolitan Water Plan*. The plan's projects have commenced, resulting in some detailed cost estimates becoming available.

Also, in light of the continuing drought, Sydney Water has reviewed its water demand forecasts. For consistency, the SCA has based its revised forecast on Sydney Water's latest projections.

## 2 Projected Capital Expenditure

As part of its business planning cycle, the SCA has reviewed and further developed its capital expenditure projections. This takes account of SCA's progress to date in implementing its capital works program; and updated costing information from tenders received and requirements emerging from continuing business planning.

For ease of comparison the SCA's revised capital expenditure projections are presented below in the same format as contained in the SCA's November 2004 submission.

### 2.1 Existing Capital Projects

**Table 1 – Current Capital Program**

Project (\$M of the year)	2004-05	2005-06	2006-07	2007-08	2008-09
Warragamba Dam Auxiliary Spillway project	3.1	5.9	12.3	2.8	
Warragamba Dam upgrade major outlet valves	5.4	2.5	0.2		
Warragamba Dam electrical upgrade	0.4	5.0	3.0	2.4	
Warragamba Pipeline spare pipes & fittings	0.3	3.9			
Bulk Water access road upgrades	4.6	7.4	6.1	5.0	
SCA Dams, modifications for environmental flows	0.1	0.7	0.7	3.4	0.7
Tallowa Dam fishway/ offtake	0.1				
Fish River water supply, upgrade transfer system	0.1	0.4	3.5	0.5	
Prospect Reservoir raw water pumping station	5.5	40.0	16.5	0.9	
Penrith Head Office relocation	0.4	3.4	4.4		
General facility projects	11.6	10.8	20.0	6.1	1.4
Land	0.1	0.5	0.3		

<b>Project (\$M of the year)</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Buildings	1.0	1.3	1.5	0.5	0.5
Plant and equipment	3.3	5.8	2.9	2.3	1.9
<b>TOTALS</b>	<b>36.0</b>	<b>87.4</b>	<b>71.3</b>	<b>23.9</b>	<b>4.4</b>

### **Warragamba Dam Auxiliary Spillway Project**

Projected total expenditure on this project has increased by \$5.1 million. \$2.7 million of this relates to settlement of some outstanding disputes with the contractor in December 2004. Also continuing detail design on the spillway gates component has provided better definition of the project resulting in increased estimate. The overall time frame to completion has been extended to allow for this increased complexity and optimised outcome for the visitors centre.

### **Warragamba Dam Upgrade Major Outlet Valves**

This project has been accelerated based on successful installation of the first valve. This allows cost savings by reducing time on site by 12 months.

### **Warragamba Dam Electrical Upgrade**

The time frame for this project has been extended to allow for increased complexity of the project. Tenderers for this project have requested more time.

### **Bulk Water Access Road Upgrades**

The Roads and Traffic Authority's comprehensive road condition audit and the commencement of work is resulting in a better definition of scope of works.

### **Tallowa Dam Fishway/ Offtake**

Concept design has been completed. Further work on this project has been deferred as detailed design for this project can only be undertaken after the outcomes of further investigations on proposed Shoalhaven Transfers under the Metropolitan Water Plan. These investigations are planned to be completed in late 2006.

### **Prospect Reservoir Raw Water Pumping Station**

The total cost is now estimated at \$62.9 million with \$40.0 million in the 2005-06 program. This total cost is substantially higher than previously foreshadowed. The increased estimate is due to a combination of several factors: an allowance for environmental and operational constraints arising from the need to allow for zero water contamination throughout the construction phase because Prospect Reservoir holds (specially protected) 'S class' waters. The option of recycling water from the pumping station to the reservoir has now been considered as being essential for lower risk operation with regard to water quality problems. Current estimates are now based on extensive geotechnical studies reflecting the immensity of the project. At present tenders have been received for this project.

As discussed in section 2.3, a major contributor to the cost increase is also the cost of materials for the project, and the rapid upward movement in costs across the construction industry, in particular 'marine' construction. These cost increases represent changes in the industry that could not have been anticipated prior to going to tender.

### **General Facility projects**

This component of the program consists of 22 individual projects. The total for this component has increased by \$29.8 million. Contributing to this increase are:

- Wingecarribee Dam Safety upgrading – now expected to cost a total of \$10.3 million compared with \$1.4 million allowed for in the November submission.

- Upper Canal fencing - now \$4.1 million compared with \$0.3 previously, based on better definition of the scope of works
- Upgrade of reticulation system and fire hydrants at various sites - now \$4.3 million compared to \$0.7 million previously

Several new projects have also been added under this category, such as:

- Upper Canal Chlorination Facilities Upgrade estimated at \$2.8 million
- Upper Canal Mechanised Flow Control and Cleaning \$3.1 million

### Plant and Equipment

This category has increased by \$10.5 million. The bulk of the increase is due to changes in the SCA's Information Technology and Fleet management. The SCA is preparing to undertake its own fleet management and information technology procurement arrangements. Information management and technology leases are no longer available through government contract. Consequently, the SCA will purchase all equipment (and sell via auction after a period of no longer than 3 years). This is estimated to cost \$5.9 million over the four year price path.

As from March 2005, the SCA's existing fleet lease contract will no longer be available. Also, these leases have been classified as operating leases (off-balance sheet) prior to the introduction of International Financial Reporting Standards. However, these are now to be classified as financing leases (on balance sheet) from 1 July 2005 at a one off cost of \$3.0 million

## 2.2 Future Capital Projects (including Metropolitan Water Plan activities)

Table 2 - Future Capital Requirements

Project (\$M of the year)	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	To complete
<b>Future Works</b>							
Prospect Dam remedial works	0.2	10.0	3.0				
Upper Canal strategic upgrade						25	125
New facility projects						12	On-going
<b>Metropolitan Water Plan</b>							
Deep storages - Warragamba	5.0	45.0	7.0				
Deep storages - Nepean & Avon	2.8	44.0	16.2				
Groundwater investigation	1.8	2.3					
Shoalhaven transfers	1.0	10.0	50.0	130.0	100.0	(135)	355 Stage 2)
Environmental flows					10.0	17	

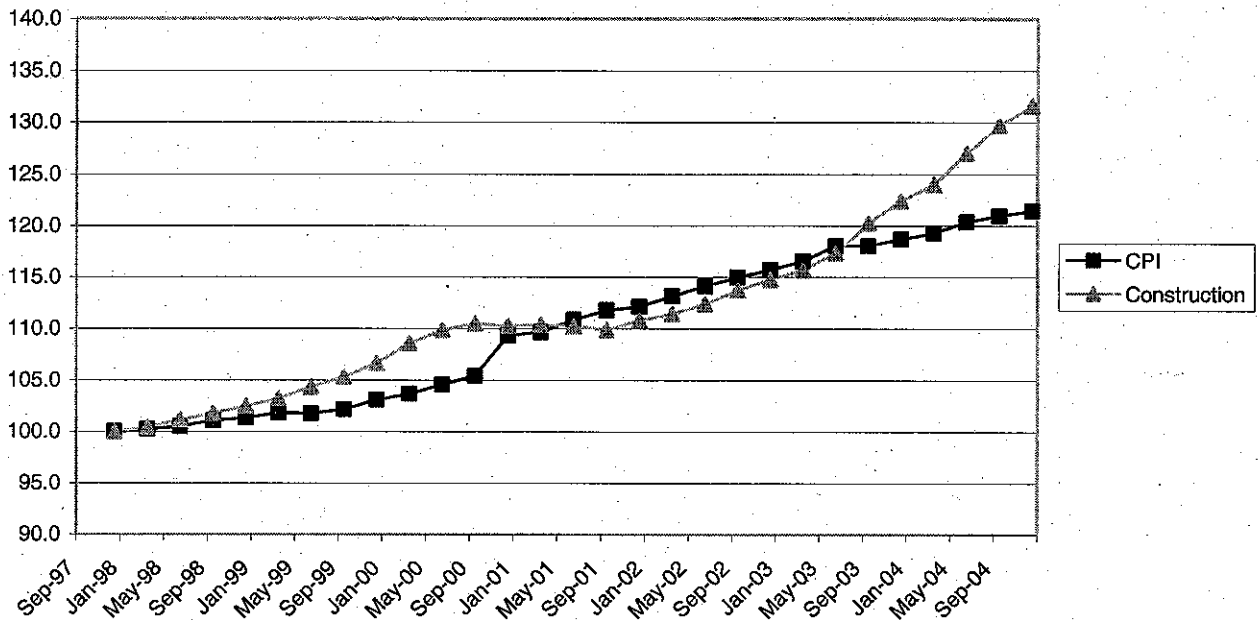
### Metropolitan Water Plan

As noted above, implementation of the SCA's components of the Government's *Metropolitan Water plan* has commenced, resulting in some revised cost estimates becoming available. Current estimates to build infrastructure to access deep storage is \$120 million. The SCA is working with the Department of Commerce in undertaking further engineering and cost analysis of the options prior to commencing construction in early 2005. The estimated cost of Shoalhaven transfers (Stage 1) is now \$291 million. As noted in the SCA's November pricing submission, the SCA is committed to fully examining and consulting with the community on changing the operating rules and building pipelines and tunnels to enable construction to commence by 2007.

## 2.3 Capital Expenditure Costs

In the context of revised capital expenditure costs it should be noted that like all utilities, the SCA Capital Expenditure Program is vulnerable to cost fluctuations in the construction sector. The figure below illustrates the current construction cost volatility resulting from strongly rising construction costs. It shows that since September 2003 construction costs have been outstripping the CPI at a faster rate than even in the period preceding the Sydney Olympics in September 2000.

Construction Cost Index v CPI



## 3 Water demand forecasts

In light of the continuing drought, Sydney Water has reviewed its water demand forecast. The revised forecast is contained in Sydney Water's supplementary submission of March 2005. As outlined in its November 2004 submission, for consistency, the SCA has based its submission on Sydney Water's demand projections. In doing so the SCA allows for approximately 7 gigalitres of Sydney Water's demand to be sourced from its supply at North Richmond.

Revised Sydney Water Demand Projections

(GL)	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Sydney Water	513	517	573	570	560	555.
Other	4.1	4.1	4.1	4.1	4.1	4.1

The SCA also supplies water to Shoalhaven and Wingecarribee councils and sixty smaller 'retail' customers. The forecast sales to these other customers is unchanged.

## 4 Revenue Requirements and Prices

At this stage the SCA's is not proposing any changes to its operating expenditure requirements as submitted in November 2004. The SCA's revised capital expenditure requirements are summarised below.

**Table 3 – Revised capital expenditure**

(\$M of year)	2004-05	2005-06	2006-07	2007-08	2008-09
Current program	35.9	87.4	71.3	23.9	4.4
Future works	0.3	10.0	3.0	0.0	0.0
Metropolitan Water Plan	10.6	101.3	73.2	130.0	110.0

The SCA's pricing proposals, in order to generate the revenues it requires over the proposed price path from 2005-06 to 2008-09, were detailed in the November 2004 submission based on the best available information at the time.

The SCA requests that in determining the SCA's future prices IPART now take into account the SCA's revised capital expenditure requirements and water demand forecast in this supplementary submission.