



**Response to
IPART's Review of prices for the
Sydney Catchment Authority**

Draft Determination and Draft Report

April 2009

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Executive Summary

The SCA welcomes IPART's draft determination and notes that IPART has largely accepted the performance of the SCA over the current price path, and its proposals for the next three years, as being efficient and prudent.

The SCA believes the following are reasonable measures that would have minimal impact on Sydney Water, and its customers, over the next three years:

- adopting a substantially higher fixed revenue component from charges to Sydney Water
- including a pass through mechanism for future SCA pumping costs from the Shoalhaven River
- enabling the SCA to recover its full revenue requirement over the price path
- determining an appropriate weighted average cost of capital.

At a time of considerable uncertainty for the SCA, the SCA considers this suite of complementary and prudent measures would help secure the SCA's future revenues over the next price path, with only a minor incremental impact on Sydney Water and its customers.

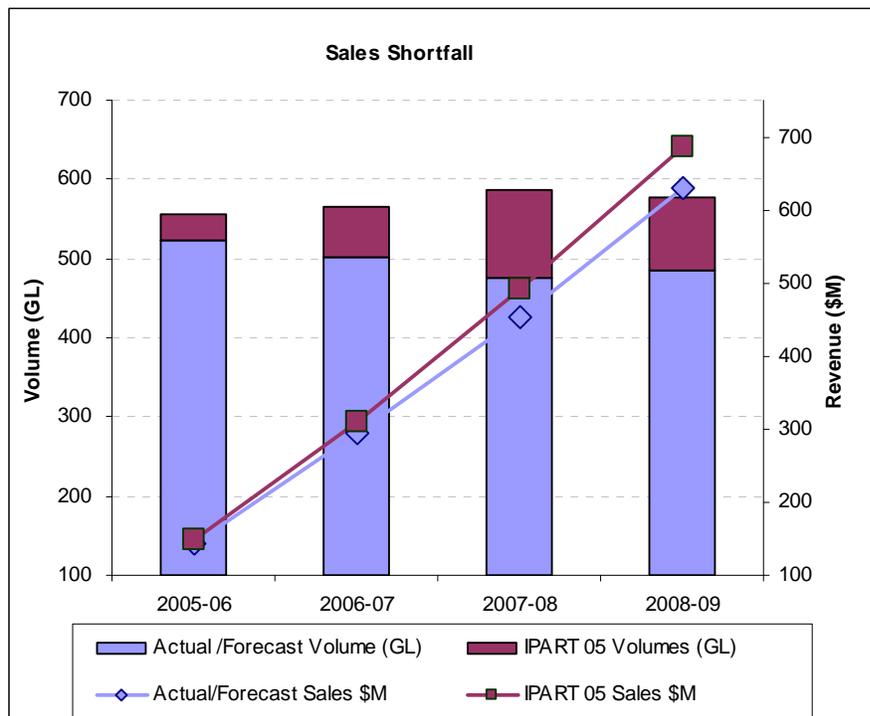
1 Introduction

The SCA considers elements of IPART's approach to setting prices in the draft determination may leave the SCA exposed to a level of financial risk. These risks include shortfall in sales revenue, inadequate return on investment, and under recovery of costs.

The prudent approach is to build in mechanisms that can safeguard against excessive variability.

The likely revenue outcome for the SCA in the current 2008-09 financial year can be used as an example. In September 2005, IPART determined prices for the SCA based on forecast sales of 578 gigalitres (GL) in 2008-09. By June 2008 this forecast had been revised downwards to 513 GL in IPART's determination for Sydney Water. Given sales to date, Sydney Water's expectation now is that the demand outcome for 2008-09 will be 485 GL. Over the current price path the SCA's sales outcome in 2008-09 has fallen by 93 GL (or 16 percent) compared to IPART's original determination for the SCA in September 2005. The SCA's volumetric price to Sydney water in 2008-09 is \$222 per megalitre (ML). The responding revenue shortfall to the SCA in 2008-09 due to this demand reduction could amount to \$21 million.

The chart below demonstrates the level of variability in sales and revenue risk exposure faced by the SCA due to developments unforeseen at the time of the 2005 determination. Over the next three years there is a similar potential for revenue variability. There is a need to build in measures to manage unexpected events.



The worsening of the global financial crisis since the SCA prepared its submission in July/August 2008 has had some unforeseen impacts on the SCA's expenditure, particularly as a result of declining bond rates. The SCA estimates that this could add of the order of \$2 million per annum to the SCA's expenses over each year of the price path.

For example, the amount that must be provided for staff long service leave provision has risen significantly. In recent months it has adversely impacted the SCA's budget and will do so further if bond rates continue to drop. The SCA's long service leave liability (including associated on-costs) at 31 January 2009 is \$7.8 million. A one percent swing in average discount rates applied to SCA affects the SCA by about \$0.5 million.

The increase in long service leave liability will have a significant effect on the SCA's bottom line and the dividend payable to NSW Treasury. Should interest rates remain stable for the remainder of 2008-09 year, long service leave expense will still exceed budget by in excess of \$1 million for the year due to the movement in bond rates. The SCA estimates that the ongoing impact of this issue alone over the next price path will be of the order of a \$0.5 million per annum.

Actuarial losses on defined benefit superannuation funds are mounting due to the global financial crisis. While the major impact is being currently experienced, if the crisis continues into future years, the SCA expects to be called upon to increase its cash contributions to these schemes.

Changed costs such as these that were unable to be foreseen at the time of preparing the SCA's proposal, further highlight the need for a prudent suite of measures that would secure future revenues.

The SCA believes the following measures would have minimal impact on Sydney Water, and its customers, over the next three years:

- adopting a substantially higher fixed revenue component from charges to Sydney Water
- including a pass through mechanism for the SCA pumping costs from the Shoalhaven river
- enabling the SCA to recover its full revenue requirement over the price path
- determining an appropriate weighted average cost of capital.

These issues are discussed in detail in the following four sections, with an additional section outlining revised demand forecasts from Sydney Water. At a time of uncertainty regarding future raw water revenue and global financial impacts, the SCA considers this suite of measures to be complementary and judicious.

2 Tariff structure

In its September 2008 submission the SCA proposed that for the coming price path the SCA's charges to Sydney Water should be set such that 80 percent of the SCA's revenue would be derived from its fixed charge to Sydney Water and 20 percent from the volumetric charge.

IPART's draft determination does not favour SCA's proposal for two main reasons:

- First, it would result in a significant decrease to SCA's volumetric charge, when this charge may have to be increased at future price determinations (eg, to signal the cost of SCA's supply augmentation requirements or the scarcity value of water in its storages). This would lead to significant price volatility between determination periods.
- Second, the volumetric charge would not provide any signal in relation to future (or longer term) SCA supply augmentation requirements.

In both instances there is no volumetric price signal to end use customers from the SCA's prices. For the duration of the coming three year price path volumetric charges to Sydney Water customers have been already determined by IPART. Therefore, pricing based on the SCA's dam levels, as canvassed by IPART in the draft determination, if and when it is introduced, may result in far more volatility to Sydney Water (as well as to retail customers should that be allowed).

The SCA provided a sound economic rationale for its suggested split between fixed and volumetric components based on short run marginal cost pricing. This analysis showed that pending the release of the next Metropolitan Water Plan, and a clear signal in relation to future augmentation, volumetric revenue of 20 percent was justifiable over the next price path. IPART for example, is of the view that the next supply increment for a long run marginal cost approach is not in prospect before 2028.

In its draft determination IPART argues that pricing water usage above short run marginal cost 'provides a volumetric signal' to Sydney Water. It also flags that it will be looking at increasing this signal in the next determination by the introduction of a wholesale scarcity price related to water in storage.

In 2004 IPART determined that the wholesale price structure should be created by setting the volumetric charge to long run marginal cost:

'The Tribunal considers that the appropriate next step towards wholesale water price reform is to review the balance between the fixed access charge and the variable usage charge and, if possible, set the usage charge with reference to the SCA's long run marginal cost. Long run marginal cost here refers to the additional costs of the measures that the SCA must incur to balance supply and demand, divided by the amount of additional water provided by those measures.'¹

¹ Pg. 2, IPART (2004) Investigation into Price Structures to Reduce the Demand for Water in the Sydney Basin – Final Report OP24, July

Previously the SCA's revenue from Sydney Water had been derived from an equal split between fixed and volumetric charges (ie 50/50). In the Draft Determination for Sydney Catchment Authority in June 2005, IPART stated in regard to demand management:

'For the 2005 determination period, the Tribunal has changed the balance of the fixed and usage components of the Sydney Catchment Authority's charges to Sydney Water by increasing the relative size of the usage charge compared to the fixed charge. It believes that this will help achieve the objective of setting charges with reference to Sydney Catchment Authority's long run marginal cost. It also believes it will send a pricing signal to Sydney Water that will help to achieve the State Government's demand management objectives.'²

However, the SCA also notes that in its 2004 Step Pricing Inquiry IPART found that:

'In relation to the wholesale price structure, the Tribunal is not convinced that introducing a step price structure is the most appropriate way to remove the financial incentive on Sydney Water to sell more water, enforce a cap on water extractions, or assist with the development of a secondary market in alternative water sources. it believes other available measures are likely to be more effective and less risky than a step price.'³

At the time, IPART argued that financial incentives were not as effective for a Government owned business such as Sydney Water which responded to other imperatives, and that a step price structure used for this purpose could create financial risks for Sydney Water.

Consistent with IPART's previous view, the SCA considers that any financial incentive to Sydney Water due to the SCA's tariff structure over the next three years is relatively weak, especially in light of the need to prove its desalination plant.

In summary, at a time when financial incentives to conserve water are not strong in relation to Sydney Water's supply, the SCA proposed a tariff structure on economic grounds. This is further supported by the lack of a volumetric price signal to end use customers in Sydney Water's current determination.

The SCA considers that adopting a substantially higher fixed revenue component from charges to Sydney Water would be appropriate over the next three years. This outcome would also act as a buffering mechanism to sales and consequent revenue variability.

² Pg. 114, IPART (2005) Sydney Water Corporation/Hunter Water Corporation/Sydney Catchment Authority *Prices of Water Supply, Wastewater and Stormwater Services, Draft Report*, From 1 October 2005 to 30 June 2009 for the SWC and SCA From 1 November 2005 to 3 June 2009 for HWC, Report Nos 5, 6 and 7, 2005; June

³ IPART (2004) Investigation into Price Structures to Reduce the Demand for Water in the Sydney Basin - Final Report OP24

3 Cost 'pass through' for Shoalhaven pumping

IPART has decided not to include a pass-through for Shoalhaven pumping costs stating that:

'The Government's recent announcement of a three-year moratorium on pumping from the Shoalhaven suggests that SCA will incur little or no such pumping costs over the 2009 determination period. IPART considers that a cost pass-through mechanism will add unnecessary complexity to the regulatory regime, given it appears the probability that it will be needed or justified over the next three years is low.

IPART and its consultant sought forecast Shoalhaven pumping costs from SCA prior to the moratorium being announced. Detailed information was not provided. For future price determinations, IPART considers that SCA should explain and justify any forecast Shoalhaven pumping costs – rather than assume they can be treated as a cost pass through. While IPART recognises that there is some inherent uncertainty associated with such forecasts, developing and refining them over time is likely to be an important element of SCA's business planning and its pricing proposals.'

As an approach to scarcity pricing, in its draft determination, IPART is proposing a form of 'pricing that depends on dam levels'. The commencement and cessation of pumping from the Shoalhaven is directly triggered by dam levels. The SCA contends that passing through SCA's Shoalhaven pumping cost, if and when it occurs, is consistent with this approach.

It is not possible for the SCA to accurately predict when pumping will be needed. System modelling can determine, on average, the volume to be pumped from the Shoalhaven but in practice this volume will fluctuate considerably. Including forecast average pumping costs in prices would have the effect of overcharging customers unnecessarily, and lead to excess returns when pumping is not needed.

The SCA believes that the most efficient approach would be to establish an ex-post cost pass through.

For its part, Sydney Water has indicated that it has no difficulty with Shoalhaven pumping costs being passed through to Sydney Water and its customers on a periodic basis.

Further, at the time the SCA made its submission, just eight months ago, dam levels were above 65 percent. As of the end of March 2009 dam levels had fallen to 58 percent. Notwithstanding the current moratorium, it is possible the SCA may need to pump during the next price path.

Including a pass through mechanism for the SCA's Shoalhaven pumping costs (via an extension of the existing pass through mechanism to customers), would be an efficient way of recovering the cost of supplying this water.

4 Target revenue

The 'glide-path' approach adopted in IPART's draft determination results in an estimated \$21.9 million under recovery of regulated revenue, relative to the SCA's underlying cost 'building blocks'. This contrasts with the net present value (NPV) smoothing approach adopted by the majority of Australian regulators including the Australian Energy Regulator and Essential Services Commission, which is designed to recover the determined building costs in NPV equivalent terms.

In making determinations the Tribunal is required by the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act) to have regard to matters including:

- the cost of providing the services concerned;
- the appropriate rate of return on public sector assets; and
- the social impact of the determinations and recommendations.

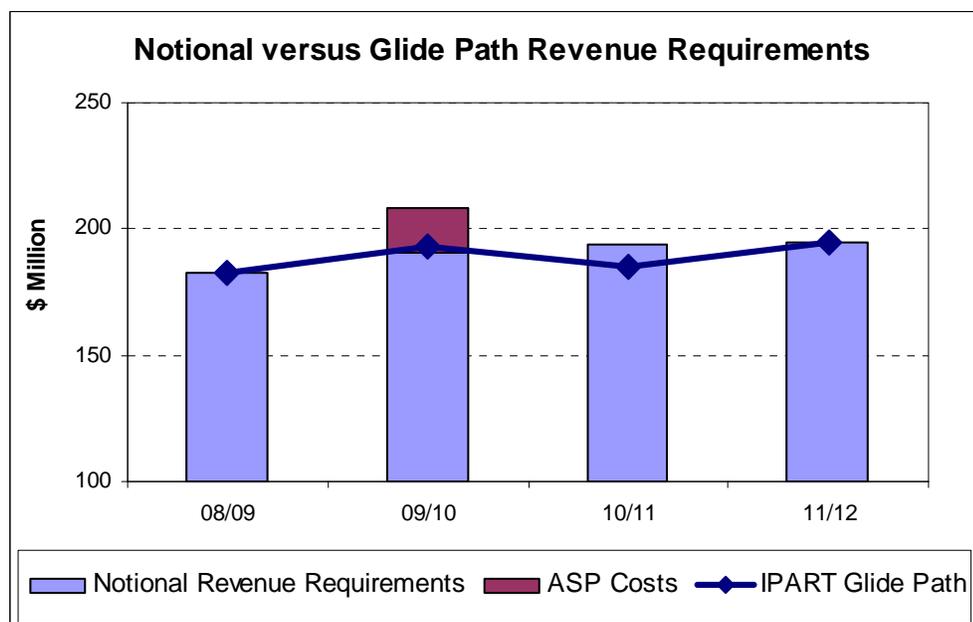
SCA recognises, during periods of cost increases, the difficulties associated with achieving these potentially conflicting objectives. If prices are immediately realigned with underlying costs, then unacceptable price shocks may result. Alternatively, if required price increases are phased in over the regulatory period, efficient costs are under recovered. The NPV smoothing approach attempts to manage price impacts while allowing for full cost recovery over the regulatory period.

Under IPART's proposed glide-path approach, cost recovery is only achieved in the final year of the regulatory period. As a result, the cost building blocks in all other years are effectively extraneous to the revenue determination process. This has significant implications in terms of the recovery of 'one off' expenditure items and impacts on incentives in terms of the timing of planned expenditure over the regulatory period.

For example, the Minister for Water has directed SCA to contribute \$17.7 million to the Accelerated Sewerage Program (ASP). The Minister has also directed IPART when it next determines maximum prices for the SCA, to include an amount representing the efficient cost of the SCA complying with his direction to the SCA.

Although the draft determination includes the ASP costs in the SCA's notional revenue requirements, these costs are effectively excluded under the proposed glide path as they do not form part of the base or final year building blocks. As a result, the NPV shortfall arising from the glide path is greater than the ASP costs.⁴

⁴ SCA acknowledges that IPART's adoption of a P_0 adjustment in 2009-10 has partially improved cost recovery; however the resultant \$21.9 million shortfall remains higher than ASP costs of \$17.7 million.



If the SCA had been directed to undertake this 'one off' expenditure in the final year of the regulatory period (i.e 2011-12), then not only would the incremental expenditure be recovered in 2011-12, but allowed revenue in 2009-10 and 2010-11 would also increase under a revised glide path to a higher end-point revenue target. Therefore, under a glide path approach, there is a strong incentive for businesses to adjust the timing of planned expenditure to maximise expenditure in the final year and minimise expenditure in other years. The timing of expenditure over a regulatory period should not have an impact on the level of revenue recovery.

The following table shows revenue and price impacts under IPART's proposed glide path and an alternative NPV smoothed approach:

Real \$2008-09	2008-09	2009-10	2010-11	2011-12	NPV ⁵
Notional revenue (\$m)	182.3	208.0	193.7	194.8	544.2
Glide path revenue (\$m)	182.3	193.4	185.2	194.8	522.3
Average % price change		6.9%	3.4%	3.4%	
NPV revenue path (\$m)	182.3	197.4	193.1	207.4	544.2
Average % price change		9.1%	5.6%	5.6%	

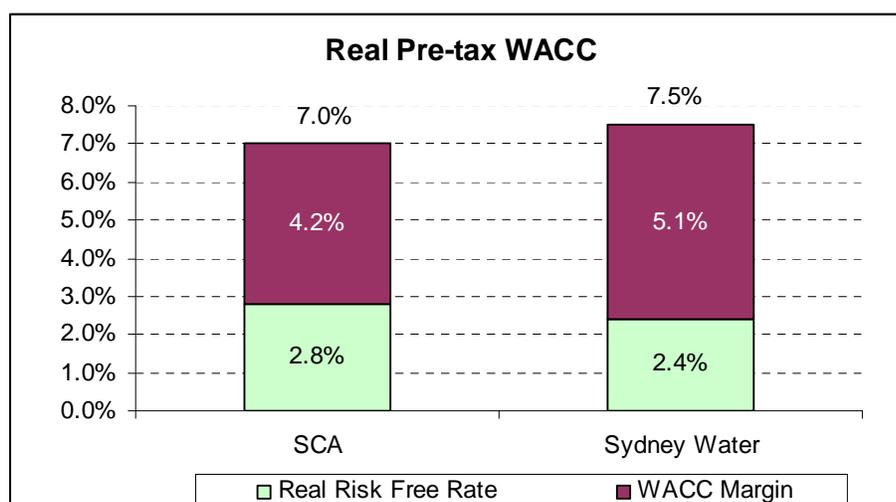
Based on the draft determination notional revenue requirements, adoption of the NPV smoothed price path shown would require further price increases to Sydney Water of around 2.2 percent per annum. Given that on average, SCA's charges represent approximately 10 percent of a typical Sydney Water customer's final bill, the overall incremental price increase under such an NPV smoothed price path would be of the order of 0.2 percent per annum.

⁵ NPV calculated using 6.5% real post-tax WACC and mid-year cash flows

5 Return on assets

The weighted average cost of capital (WACC) provided by IPART is a critical parameter in terms of providing incentives for efficient investment in raw water infrastructure. It is important IPART adopts a consistent approach to setting WACC parameters in order to reduce regulatory risk and create a more certain investment climate.

SCA acknowledges that the majority of parameters in the draft determination are consistent with those adopted in recent water determinations. However, the proposed WACC for SCA is 50 basis points below Sydney Water's June 2008 final determination, or 90 basis points lower if measured as a margin above the real risk free rate.



Since the Sydney Water determination, the global financial crisis has worsened, credit spreads have widened, and equity markets have fallen, suggesting that investors now require higher returns on their investments. An effective 90 basis point reduction in the relative rate of return provided to Sydney Water and SCA is inconsistent with the current economic climate and provides a poor signal for new investment in essential water infrastructure.

IPART's main drivers for SCA's lower relative WACC are a lower debt margin, and adoption of a WACC point estimate below the mid-point of the range. These issues are discussed below.

5.1 Debt margin

Under 60 percent gearing assumptions, the debt margin has a significant impact on WACC. Each 100 basis point variation in debt margin translates to a 60 basis point variation in the WACC.

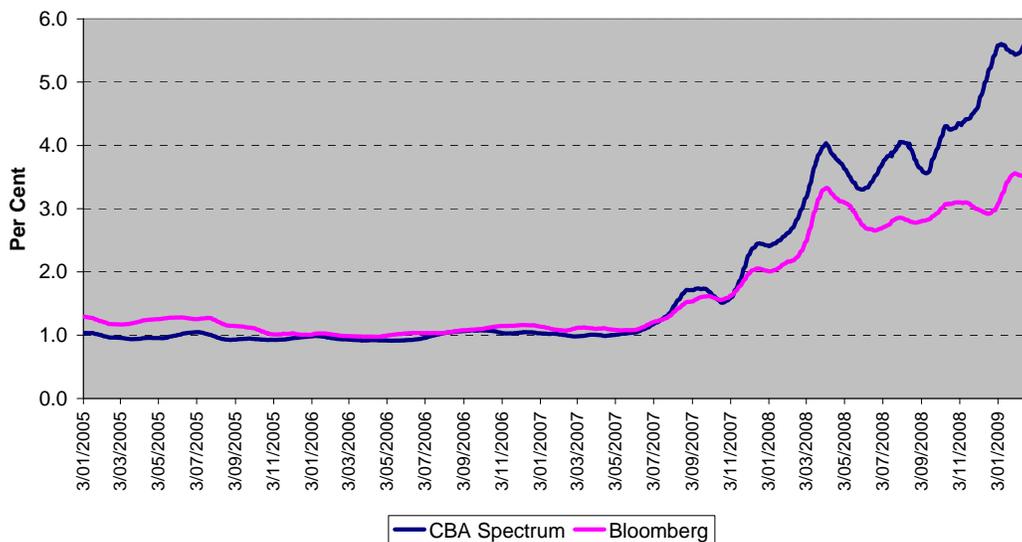
IPART's draft determination adopts a debt margin range of 1.2 percent to 3.6 percent (ie 2.4 percent mid-point). This is considerably lower than that adopted by IPART in recent determinations.

	Low	High	Mid-point
SCA draft (Mar 2009)	1.2%	3.6%	2.40%
CityRail (Dec 2008)	2.9%	6.0%	4.45%
Sydney Water (June 2008)	3.1%	3.7%	3.40%

The proposed debt margin mid-point of 2.4 percent is 100 basis points below that adopted by IPART in Sydney Water's June 2008 determination. This is inconsistent with market evidence suggesting that credit spreads have widened considerably over the past 12 months in line with the deterioration in the global economy.

The proposed debt margin mid-point of 2.4 percent is 205 basis points lower than that determined by IPART for CityRail in December 2008. The reduction to the upper end of the debt margin range (6.0 percent CityRail versus 3.6 percent SCA) is largely a result of IPART using fair value yield curve data from Bloomberg rather than CBASpectrum. As demonstrated in the graph below, fair value yields reported by Bloomberg and CBASpectrum have widened considerably in recent months.

10 Year BBB Credit Spreads
Fair Value Yield Curve Data



As a footnote to the draft decision, IPART indicated that CBA Spectrum has discontinued its service to some nonbank customers and therefore IPART had to rely on Bloomberg data. Given the material impact on debt margin outcomes, further detailed analysis of both approaches is warranted prior to IPART adopting a change in regulatory approach, especially given IPART's previously stated preference for using CBASpectrum data:

'IPART is of the opinion that the yields provided by CBASpectrum are the best available proxy for estimating a debt margin for Sydney Water that meets the competitive neutrality principle:

- the model is widely used in the market
- the model generates yields for fairly (efficiently) priced bonds and

- there is no credible evidence that the model produces consistent under-valuation of any class of bonds.⁶

In the draft determination, IPART expressed concern that ‘the upper bound of the traditional debt margin estimate may not be relevant for SCA’ and indicated a preference to use only utility-issued bonds to determine debt margin. It is unclear why this is the case. Credit rating benchmarks are determined with reference to market wide parameters including business risk and financial leverage, i.e, credit ratings are not industry specific. Having established a BBB to BBB+ benchmark for SCA based on its below average business risk and assumed above average financial leverage (typical of most regulated utilities), it is appropriate to determine debt margin with reference to BBB to BBB+ credit spreads across the entire market, rather than limiting debt margin analysis to any particular sector.

The draft report provides little evidence in support of the proposed reduction to the low-end debt margin estimate (3.1 percent Sydney Water, 2.9 percent CityRail, 1.2 percent SCA). IPART has historically used corporate bond yields for BBB+ to BBB rated securities, however no details pertaining to the corporate bonds used to derive the 1.2 percent low-end debt margin are provided in the draft decision. Such a low margin appears inconsistent with market evidence of increasing credit spreads. Advice received from NSW Treasury indicated that credit spreads on AAA rated 10 year semi-Government (TCorp) bonds increased to as high as 1.4 percent during March 2009, casting significant doubt in relation to the robustness of the proposed 1.2 percent low end of the debt margin range.

5.2 Selected WACC within proposed range

Given the uncertainty surrounding the estimates of key WACC parameters, IPART estimates WACC as a reasonable range. The width of this range depends on the aggregated uncertainty of the estimated input parameters. Within this range, SCA believes that IPART should select a point estimate for the WACC that:

- is sufficiently likely to meet SCA’s underlying cost of funds
- does not threaten the long-term viability of the business
- provides appropriate incentives for future investment.

IPART’s draft determination proposes a real pre-tax WACC range of 5.9 percent to 8.6 percent. Within this range, IPART has adopted a point estimate WACC of 7.0 percent, 25 basis points below the range mid-point of 7.25 percent.

If the WACC range is viewed as a probability distribution of SCA’s true cost of funds, then the 7.0 percent point estimate selected by IPART means there is greater than a 50 percent probability that SCA will not achieve its required cost of capital. In the long term, this has potential implications for SCA’s financial viability. Resultant shortfalls in returns to equity holders will also impact on incentives for future investment.

The selection of a point estimate below the range mid-point is also inconsistent with the Productivity Commission’s observation that regulators should err on the side of promoting long-term efficient investment:

‘Third party access and the resulting benefits to service users are only possible over the longer term if there is continuing investment in the essential infrastructure services themselves. On the other hand, while denial or monopoly pricing of access imposes costs on the community, such behaviour cannot threaten the continued availability of the services concerned. This asymmetry in potential outcomes highlights the priority that access regulation must give to ensuring that there are appropriate incentives for efficient

⁶ IPART, Review of prices for Sydney Water Corporation’s water, sewerage, stormwater and other services, June 2008, Page 165

investment.⁷

SCA acknowledges that IPART is required to balance the often-conflicting objectives of both the business and its customers. For example, section 15 of the IPART Act requires IPART to have regard to both the cost of providing services (including the appropriate rate of return on public assets) and the social impact of the determinations and recommendations.

However, SCA believes that an appropriate rate of return should provide the business with at least a 50 percent probability of achieving its cost of capital. Justification for a lower WACC should be supported by clear evidence that the WACC mid-point would result in inappropriate social (i.e. customer) outcomes. In this regard, SCA notes that adoption of a 7.25 percent, rather than 7.0 percent WACC, has a negligible incremental impact on SCA's revenue requirements and pricing outcomes.

The table below shows that under 7.25 percent WACC assumptions, SCA's 2009-10 notional revenue requirements increase by an estimated \$3.2m, or 1.5 percent. Given that, on average, SCA's charges represent approximately 10 percent of a customers' final bill, adoption of the mid-point WACC of 7.25 percent translates to a 'one-off' incremental price difference of just 0.15 percent.

2009-10 Notional revenue requirements (\$million)	7.0% WACC	7.25% WACC (range mid-point)
Operating expenditure	97.3	97.3
Depreciation	21.2	21.2
Return on assets *	89.9	93.1
Other	(0.4)	(0.4)
Total	208.0	211.2

In the draft determination, IPART indicated it is currently considering alternative approaches to estimating the debt margin and that it intends to release a working paper in March 2009, to seek comments from stakeholders. IPART also indicated that for the purposes of SCA's draft determination, it has continued to use its 'traditional methodology' to determining the debt margin range, but has also 'had regard to the alternative approach in setting the point estimate within that range'.

SCA sought advice from NSW Treasury who has expressed concerns in relation to IPART's proposed methodology for determining the SCA's debt margins. Alternative debt margin methodologies should not influence current WACC outcomes until they have been fully investigated and subject to appropriate stakeholder consultation.

⁷ Productivity Commission, Review of the National Access Regime, Inquiry Report, 17 September 2002, Overview XIX

7 Water demand forecast

As agreed with IPART, the SCA based its September 2008 pricing submission on Sydney Water's demand forecast which was reviewed and endorsed by IPART in its June 2008 determination for Sydney Water.

The SCA relies on Sydney Water's estimates for demand and in March 2009, Sydney Water updated its forecast. Over the next three years, forecast demand is lower than allowed by IPART in its determination by some 26 gegalitres (GL).

This significant decrease in likely demand highlights the revenue risk to the SCA and the need to base prices on as most recent a forecast as is available. The SCA had proposed a continuation of the mechanism whereby variations in water sales could be addressed in the next price path (albeit over a narrower band of +/- five percent). However, IPART has chosen not to allow any such mechanism.

In this context the SCA preference is for IPART to base its final determination on the latest water demand information from Sydney Water as detailed below.

(GL)	2008-09	2009-10	2010-11	2011-12
SCA submission September 2008	513.2	507.2	445.6	458.8
Sydney Water forecast March 2009	485.8	497.7	449.0	438.0

8 Investment category rating

IPART's draft determination included analysis of a range of financial indicators, commonly used by credit agencies, to assess SCA's financial strength and debt servicing capacity under the proposed revenue path. In undertaking this analysis, IPART assumed SCA's actual gearing and financial ratio guidelines used by NSW Treasury to assess credit worthiness.

Shareholder decisions relating to capital structure should not impact on regulated revenue requirements. When determining the level of gearing used to calculate the WACC, IPART adopts a benchmark capital structure, rather than the actual financial structure, to ensure that customers will not bear the cost associated with an inefficient financing structure. Similarly, IPART should adopt a benchmark capital structure in undertaking analysis of financial strength. Otherwise, there is a perverse incentive for shareholders to increase gearing levels to inefficient levels in order to maximise revenue requirements.

It is inconsistent to adopt a benchmark gearing for the purposes of determining WACC and actual gearing for the purposes of determining the impact of regulatory decisions (including WACC) on financial viability.

NSW Treasury has advised that the target financial ratio ranges used in IPART's analysis are inconsistent with those used by NSW Treasury to assess SCA's credit worthiness. NSW Treasury uses different ratio targets, depending on the underlying business risk of the entity. In this regard, NSW Treasury assumes an 'above average' business profile for SCA, whereas IPART's analysis is based on ratio ranges for a 'well above average' business profile.

NSW Treasury has replicated IPART's credit rating analysis, assuming the benchmark capital structure of 60 percent and ratio ranges based on an SCA's 'above average' business profile. As shown in the table below, the analysis indicates that SCA would have difficulty in maintaining an investment grade rating based on regulated revenue outcomes under IPART's draft determination:

Financial ratio	2009-10	2010-11	2011-12
1. FFO interest cover	1.7	1.8	1.9
NSW Treasury rating	BB	BB+	BB+
2. FFO / Total debt	4.7%	5.2%	6.0%
NSW Treasury rating	B+	BB	BB
3. Debt gearing	61%	61%	61%
NSW Treasury rating	BBB+	BBB+	BBB+
4. Pre-tax Interest Cover	1.5	1.6	1.7
NSW Treasury rating	BBB	BBB	BBB
5. NSW Treasury score *	3.0	3.5	3.8
overall rating	BB+	BB+	BB+

* An overall score of between 4.0 and 5.0 is required to achieve a BBB rating.

9 Conclusion

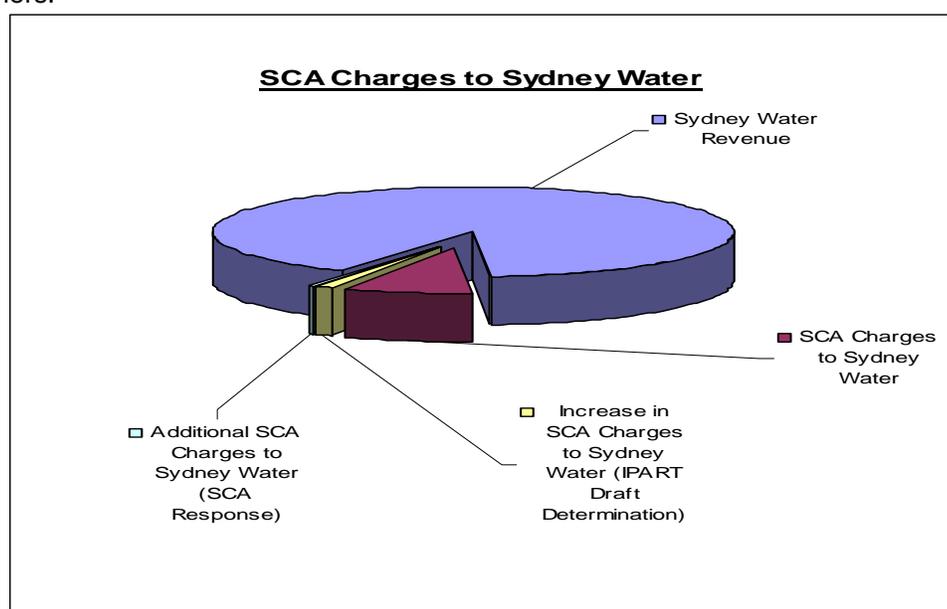
The following table compares SCA revenue over the next price path as proposed in its September 2008 submission, IPART's draft determination, and a possible outcome, depending on IPART's consideration of the matters raised in this response.

Target revenue	2009-10	2010-11	2011-12
SCA Submission September 2008	213.5	199.3	200.5
IPART Draft Determination March 2009	193.4	185.2	194.8
A possible outcome ⁸	210.1	195.4	196.8

The table below compares the likely impact on customers.

Additional impact on Sydney Water customers	2009-10	2010-11	2011-12
Annual customer bill (200kL)	\$933	\$974	\$997
Increase with SCA Submission	1.9%	1.8%	1.9%
Increase with IPART Draft Determination	0.7%	1.0%	1.6%
Increase with a possible outcome	1.4%	1.2%	1.4%

The above tables and the chart below indicate that the additional measures highlighted in this response to IPART's draft determination (and drawn from the SCA's September 2008 submission), would have only a minor incremental impact on Sydney Water and its customers.



⁸ March 2009 demand forecast, 80 percent fixed charge revenue, WACC of 7.25 percent