

**REVIEW OF PRICES FOR THE SYDNEY  
CATCHMENT AUTHORITY**

**SUBMISSION BY TOTAL ENVIRONMENT CENTRE TO  
THE INDEPENDENT PRICING AND REGULATORY  
TRIBUNAL ON DRAFT DETERMINATIONS  
AND REPORT**

**April 2009**

## **INTRODUCTION**

Total Environment Centre (TEC) welcomes the opportunity to comment on the draft determination and report of the Independent Pricing and Regulatory Tribunal (IPART) review of prices for the Sydney Catchment Authority (SCA).

As noted in our initial submission, TEC believes that the primary considerations in setting in setting prices should be providing sufficient revenue for the Authority to satisfactorily carry out its catchment protection obligations and sending a resource conservation signal to Sydney Water.

TEC therefore supports the proposed increase in prices to allow SCA to operate, maintain and renew the assets needed to effectively carry out its catchment management and bulk water supply functions.

### **Price structure**

TEC welcomes the Tribunal's decision not to support SCA's proposal to generate more revenue from fixed charges while reducing the proportion of revenue obtained from volumetric charges. As noted in our initial submission this would diminish the resource conservation signal provided to bulk water customers such as Sydney Water. We are disappointed; however, that the Tribunal has not sought to strengthen this signal by reducing fixed charges and increasing the contribution of volumetric charges.

TEC notes that the Tribunal is seeking comment on a possible form of 'scarcity pricing' with a view to possibly introducing such pricing at the 2012 determination. We note the Tribunal's comments that:

Under such a pricing approach, the price of water from SCA's dams would vary inversely with dam levels (available supply). SCA's prices to Sydney Water would rise when dam levels fall (i.e., when dam water is scarce); and fall when dam levels rise (when dam water is plentiful) – thus prices would reflect the relative scarcity or value of SCA water under prevailing conditions. Notably, in contrast to other scarcity pricing proposals, IPART favours an approach that complements, rather than replaces, the current regime of water restrictions.

TEC has reservations about this proposed approach. TEC strongly believes that there should be an equally strong focus on conserving water both during droughts and in periods of abundant supply. Thus a strong resource conservation signal is important at all times. There is also a risk that rather, than invest in demand management and water conservation; Sydney Water may simply seek to increase the output of the energy intensive and environmentally damaging desalination plant.

TEC believes that a superior approach would be to apply financial penalties to Sydney Water for any water sales in excess of operating licence demand management targets. Such penalties should apply irrespective of the source of supply i.e. SCA or desalination. This would provide a strong incentive to Sydney Water to invest in demand management and water conservation irrespective of supply levels. Revenue obtained from such

penalties should be invested in demand management and water conservation in order to address the failure to meet demand management targets.

### **Determining appropriate water sales**

TEC notes that, in determining appropriate water sales, the Tribunal has assumed that Sydney Water's desalination plant will operate at 100% and at 50% following this initial period.

TEC strongly believes that such an approach to operating the desalination plant is absurd. With desalination providing the most environmentally damaging and expensive source of water available to Sydney Water it makes no sense to operate a plant, originally attended as an emergency drought response, in such a manner.

### **Output measures**

TEC believes that the Tribunal's proposed output measures provide a useful means of assessing SCA's performance in relation to capital and operating expenditure, however, we believe they are too narrowly focussed and do not allow measurement the adequacy of SCA's performance in relation to catchment protection. TEC believes that the Tribunal should develop output measures for catchment protection and for SCA's obligations under the *Sydney Water Catchment Management Act 1998* and SCA's Corporate Plan.