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13 September 2013

Mr Sebastian Roberts  
General Manager - Water Branch  
ACCC  
GPO Box 520  
MELBOURNE VIC 3001

Dear Mr Roberts

### **Submission on State Water 2014-17 Pricing Application**

The Sydney Catchment Authority (SCA) is pleased to provide a response to the Australian Consumer and Competition Commission (ACCC) review of State Water's 2014-17 pricing application. The SCA's comments predominantly relate to the Fish River Water Scheme (FRWS) and notes that the prices determined for FRWS will not initially apply to the SCA, but will form a major input to IPART's determination of prices to the SCA.

The SCA and its predecessors has been a customer of the FRWS since the 1950s. The FRWS is a small but critical component of SCA's supply system by providing top up supply to the SCA's Blue Mountains storages. As these storages have low capacity, the SCA needs to have flexible access to top up water to maintain a reliable supply of water to the Blue Mountains community.

The FRWS provides a low cost solution to the SCA as water largely flows from the FRWS to the SCA storages via gravity. Alternative sources from lower elevation would require pumping which uses a significant amount of energy.

The variable demand for water means that in many years, the SCA would only need minimal volume for maintenance purposes from the FRWS, whereas in other years large volumes are essential to ensure the SCA meets minimum reliability standards. With this irregular usage, the SCA recognises the importance for the FRWS to have sufficient revenue so that its assets are available for immediate supply response.

The SCA notes that pricing for the FRWS was initially on a take-or-pay basis and was changed to a two-part tariff with a 60% volumetric component in the mid-2000s under National Competition Principles. In the 2014-17 pricing application, State Water proposes to change the charging arrangement so that 80% of the revenue is recovered from the fixed component. The SCA supports this proposal as it provides State Water with revenue certainty given the highly variable water demand and is a better match to its cost base. The SCA also considers this arrangement a fair approximation to a forward contract, which would be the likely outcome if State Water and the SCA were to enter into commercial negotiation in a non-regulatory environment.

The SCA also supports State Water's proposal to move to a revenue cap with annual price adjustment and carryover of any shortage or excess revenue between regulatory periods. In combination with the 80:20 fixed to variable tariff, the revenue cap would reduce State Water's risks and ensure its commercial viability in the long term.

For the current IPART determination period, the SCA is under a very similar form of price regulation to what State Water has proposed. Whilst not subject to a revenue cap, the SCA has a 80:20 fixed to variable tariff to its major customer Sydney Water and has a price adjustment mechanism that permits a change in price when the Sydney Desalination Plant is in operation to ensure the SCA receives sufficient revenue for its operation.

With regard to the costs in the proposal, State Water has consulted with the SCA through the Fish River Customer Council. The SCA is satisfied that the expenditure proposed is justified.

Should ACCC officers wish to discuss this matter further, please contact Ed Chan on (02) 4724 2487.

Yours sincerely

  
**Ross Young**  
**Chief Executive**

13/09/13