

Ms Liz Livingstone
CEO
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240



Dear Ms Livingstone

I refer to your review of prices for Sydney Water and also for Hunter Water, each to apply from 1 July 2020. As Portfolio Minister for each of these State-Owned Corporations, I have a strong interest in the outcomes of the review. I recognise the important role IPART plays to ensure prices are kept as low as they can be while also ensuring that services are provided consistent with legislative and regulatory requirements and with customer willingness to pay. It is also important that these utilities are able to meet the NSW Government's objectives.

Sydney Water and Hunter Water have each briefed me on the expenditure review process. I welcome the close scrutiny provided by IPART and its consultants of the plans put forward by Sydney Water and Hunter Water. However, I have some concerns regarding some aspects of draft determinations.

Sydney Water

Sydney Water's ability to enable growth is of high importance to the NSW Government. Given the commitments Sydney Water has to projects including the Aerotropolis, I am concerned that cuts to proposed growth expenditure will mean that Sydney Water is unable to recover the contributions their customers should be making to growth through the water price.

The resilience of the network was a key focus to Sydney Water and to the NSW Government during the recent drought. Sydney Water proposed investment in a bi-directional connection between Prospect and Macarthur system is important given recent experience that the Southern dam levels can fall faster than Warragamba. I am concerned that the recent rainfall should not prevent sensible and prudent investment in improving system resilience and supporting growth.

Sydney Water's proposed improvement in environmental performance is important to the NSW Government. I am concerned that with the proposed reduction in the expenditure put forward by Sydney Water, and the commitment Sydney Water has to comply with Environmental Protection Licences, there will not be sufficient revenue allowance for Sydney Water to recover these costs, and further system performance improvements may not be achieved.

Hunter Water

I am advised that IPART's current position would result in Hunter Water's prices falling over the next price period, largely driven by the reduction in Weighted Average Cost of Capital. Hunter Water has advised me that IPART is not supporting the aligning of asset lives used for calculating the life of the assets. I am also advised that IPART's current position does not support the application of the Demand Volatility Adjustment Mechanism.

It may be helpful for me to advise that I have encouraged Hunter Water to strive to keep customer demand low, even if healthy rainfall returns. The experience of the Millennium drought is that in Melbourne and in Sydney, most of the reduction in demand achieved during that drought has been sustained. Maintenance of reduced demand in Sydney and in the lower Hunter would not only serve to help us be resilient to drought should dry weather return in the short term, but would help optimise future supply augmentation investment. Hunter Water advised me that if IPART maintains the current view of asset lives and of the Demand Volatility Adjustment Mechanism, maintaining reduced demand would threaten their credit rating.

I recognise that IPART's draft determination is supportive of increased expenditure for both utilities, and this will enable them to achieve many of the required improvements in performance and service. I ask you to consider the points I have made in this letter in arriving at your final determination for each utility.

Yours sincerely



Melinda Pavey MP
Minister for Water, Property and Housing