

# Supplementary Report

Review of WAMC expenditure

360844



Prepared for  
Independent Pricing and Regulatory Tribunal

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## Contact Information

### Cardno (Qld) Pty Ltd

ABN 57 051 074 992

Level 11

515 St Paul's Terrace

Fortitude Valley QLD 4006

Locked Bag 4006

www.cardno.com

Phone +61 7 3369 9822

Fax +61 7 3369 9722

Author(s):

Stephen Walker, Business Leader – Asset Strategies

Approved By:

Stephen Walker, Business Leader – Asset Strategies

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# 1 Introduction

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## 1.1 Background

Cardno has been commissioned by the Independent Pricing and Regulatory Tribunal (IPART) to provide an opinion to IPART on the efficient level of historical and proposed operating and capital expenditure required by the Water Administration Ministerial Corporation (WAMC) to deliver its services. Historical expenditure is that incurred in the time since the 2016 Determination (1 July 2016 to 30 June 2021) and proposed expenditure is that which is proposed for the period from 1 July 2021 to 30 June 2026.

We have provided a Final Report to IPART which sets out our opinion on WAMC's efficient costs ([Link to report](#)). IPART subsequently prepared a Draft Determination setting out the maximum prices that WAMC may charge for its services.

IPART has invited, and will consider, submissions on its Draft Determination in making its Final Determination for WAMC's prices.

## 1.2 Purpose

The purpose of this Supplementary Report is to respond to issues raised in response to IPART's Draft Determination. The most material submission received are those from the agencies that deliver WAMC services – Department of Planning, Industry and Environment (DPIE), the Natural Resources Access Regulator (NRAR) and WaterNSW. Submissions from other parties have also been considered in preparing this report.

This report should be read in conjunction with our Final Report referred to above as it provides the context to the issues discussed in this report.

## 1.3 Structure of this report

This report is structured to align broadly with our Final Report and with the issues raised in submissions. This report is structured as follows:

- > Section 2 discusses monopoly services, user shares and cost drivers
- > Section 3 addresses issues raised on the efficiency methodology employed by us
- > Section 4 discusses areas where the agencies have questioned adjustments to operating expenditure made by us
- > Section 5 discusses areas where the agencies have questioned adjustments to capital expenditure made by us as well as the allocation of capital expenditure
- > Section 6 addresses the fee for service activities being consent transactions and water take assessment
- > Section 7 details a small number of proposed revisions to Output Measures.

## 2 Monopoly services, user shares and cost drivers

### 2.1 Consideration of Coal Seam Gas bores monitoring as a WAMC monopoly service

There is a current proposal that around 70 new bores for monitoring the impacts of coal seam gas extraction be transferred to WaterNSW's ownership and that it would be responsible for managing and conducting monitoring from these bores. The capital costs of the bores has been funded outside of WAMC. In its Pricing Proposal, WaterNSW indicated that it had not specifically included these costs in its forecast expenditure requirements as the timing of the transfer of the assets was uncertain but that it would seek to recover costs through the WAMC determination when the timing was confirmed:

*The operational costs of these assets have not been included in our pricing submission at this stage due to the uncertainty around the timing of the transfer date of the assets and the operational decision to transfer the assets to WaterNSW.*

*As we believe these assets are likely to be transferred to WaterNSW over the 2022-25 determination period, WaterNSW has provided indicative estimates on the operational cost of maintaining these assets. Once DPIE makes a decision on the transfer date of these assets, WaterNSW will ask IPART to provide an additional operating expenditure allowance to fund the additional costs of servicing the transferred assets.*

WaterNSW has estimated costs for the ongoing monitoring from these bores and we commented on these in our Final Report. For the avoidance of doubt, the recommendations made by us in our Final Report did not include any allowance for these ongoing monitoring costs and no allowance was made in IPART's Draft Determination.

In the first instance, we did not make any allowance for these costs because a formal agreement had not been entered into that would make WAMC and WaterNSW responsible for these activities and costs. In response to the Draft Determination, WaterNSW provided a letter from DPIE dated 26 April 2021 which states that:

*DPIE Water intends to seek an order under section 28 of the Water NSW Act 2014 to transfer ownership of these assets to WaterNSW in the 2020/21 financial year, with an intention that WaterNSW incorporate the bores into the State-wide groundwater monitoring network under existing and proposed revised agreements.*

*WaterNSW will assume responsibility for the operation and maintenance of the monitoring bore assets. To this end, it is appropriate that IPART consider appropriate funding arrangements to support WaterNSW owning, operating and maintaining these assets in the relevant price determinations.*

This correspondence provides greater assurance that these assets will be transferred to WaterNSW. However, we note that the timing is still uncertain and that the expected timing for this agreement being entered in to has continued to slip.

While this is a concern to us given that including these costs in WaterNSW's revenue allowance for its WAMC's activities would transfer the risk of this uncertain agreement not going ahead to customers, of greater concern to us is whether these costs fit within the definition of WAMC monopoly services.

As noted, the groundwater monitoring bores are for the purposes of monitoring the impact of coal seam gas extraction. In Section 4.2 of our Final Report, we set out that the definition of WAMC monopoly services is guided by Pricing Order and the National Water Initiative Pricing Principles. Items 1 and 5 under Principle 3 for "recovering the costs of water planning and management activities" make clear that the scope of water planning and management relates to water use. The impacts of Coal Seam Gas extraction that these bores will monitor are not water use, they are related to the negative externalities on the environment (groundwater) of the extract of Coal Seam Gas. Item 5 refers to this distinction albeit indirectly in stating that "Water planning and management does not include activities undertaken to manage land-based impacts such as those associated with land clearing for example". Further, we cannot see that the impacts of Coal Seam Gas on groundwater fall into the framework for classifying water planning and management costs set out in Appendix B of the Pricing Principles.

Therefore, we conclude that these costs for Coal Seam Gas monitoring do not meet the definition of WAMC monopoly services and should not be included in the WAMC determination for the future period.

## 2.2 User share for W04 Water Modelling (surface and groundwater)

We comment in Section 4.2 that DPIE has been able to provide greater evidence of the changed requirements for surface water and groundwater modelling in recent years. Currently, the two modelling activities have the following user shares assigned:

- > W04-01 Surface water modelling – 80%
- > W04-02 Groundwater modelling – 100%

In the 2019 Rural water cost sharing report, the consultant (Aither) considered ranges for the user share for W04-01 Surface water modelling of between 70-90% and conversely 10-30% for Government in recognition that modelling is required “...information is also used for broader NSW government processes and compliance with inter-state water sharing agreements”. We consider that the additional requirements required of DPIE which include floodplain modelling and work to support regional water strategies are all now stronger drivers than what was considered in the 2019 review and suggest that the balance between users and government be revisited. We recommend that IPART adopt the lower bound user share considered by Aither of 70% for activity W04-01 Surface water modelling.

The user share of 100% for W04-02 Groundwater modelling is based on users being the clear impactor for groundwater extraction. We recommend that this user share remain unchanged.

## 2.3 User share for metering reform costs

Implementation of metering reform is leading to a change in the scope and nature of activities undertaken by the WAMC business. This calls into question the appropriate user share for these activities. The nature of the activities are broadly similar to the existing water take activities which have the following activity codes and user shares:

- > W03-01 Water take data collection – 100% user share
- > W03-02 Water take data management and reporting – 100% user share.

Further, metering reform supports compliance activities and the same impactor logic applies. The user shares for compliance activities are as follows:

- > W08-01 Regulation systems management – 100% user share
- > W08-02 Consents management and licence conversion – 100% user share
- > W08-03 Compliance management 100% user share<sup>1</sup>.

Based on the preceding discussion, we consider that a 100% user share is appropriate for the expenditure incurred implementing metering reform.

We note that in our Final Report that we supported WaterNSW's division of the water take monitoring activity group into two separate areas as logical and that it should be considered as the basis for revised activity codes for the future period, including for during and following implementation of metering reform. The new activities could be named as follows:

- > W03-01 - Water take data collection and management
- > W03-02 - Meter maintenance.

## 2.4 Cost driver for activity W10-02 Business governance and support

In our Final Report, we noted that WaterNSW had not proposed in its Pricing Proposal to change the cost driver for any activities delivered by it (noting that WaterNSW also questioned the underlying definition of activities). We therefore accepted that the cost driver for activity 10-02 Business governance and support should remain as water take. However, DPIE had also argued in its Pricing Proposal that volume of entitlement was preferable to water take as a cost driver. We responded to this proposal as follows:

*Volume of entitlements is proposed as the underlying cost driver for 7 out of the 12 activities for which change is proposed. Over preceding determinations, there has been a shift between water*

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<sup>1</sup> Note that while the impactor user share is 100%, we have recommended that the New South Wales government contribute a portion of costs for W08-03 Compliance Management. This is discussed further in our final report.

*take and water entitlements and back again based on arguments of cost reflectivity, data reliability and variability. The main advantages that we see in using entitlements in place of water take as a cost driver is that it is simpler administratively to implement, more reliable and more reflective of the largely fixed costs of the WAMC activities. We therefore support the move to water entitlements as a cost driver in place of water take where proposed by DPIE.*

These same considerations apply equally for the use of water take as the cost driver for activity 10-02 Business governance and support. We therefore conclude that for the same reasons, and for consistency, that the cost driver for activity 10-02 Business governance and support should be changed to volume of entitlements.



## 3 Efficiency methodology

### 3.1 DPIE's internal efficiency challenge

In its submission on the Draft Determination DPIE states that

*“...the department and NRAR have submitted plans to IPART for a \$73.6 million efficiency target over the 2021 determination period. Despite this, IPART has applied further arbitrary catch-up and continuing efficiencies to the costs of WAMC activities.... We consider that a cumulative efficiency goal of over \$100 million is unrealistic and would have adverse impacts on water users. We also question the future incentives that this decision might create for regulated agencies who may otherwise voluntarily identify potential efficiency opportunities.”*

In response to this statement, we note the following:

1. The efficiencies applied are not arbitrary but the result of a structured methodology
2. It is incorrect to sum DPIE's own efficiency challenge to that recommended by us as they are not made on a comparable basis.

We expand on these two areas following.

**The efficiencies applied are not arbitrary but the result of a structured methodology.** This methodology is set out in Section 2.2 of our Final Report and takes the DPIE expenditure proposal (to which its internal efficiency challenge has already been applied) and applies a stepped approach to arrive at efficient expenditure. The first step is to identify scope adjustments where we consider that the level of activity or costs applied are not efficient. As our starting point is what DPIE has submitted and its internal efficiency challenge has been applied to, these represent further inefficient activities beyond those identified by DPIE. However, scope adjustments should not be seen as an efficiency challenge but instead activity which we consider should not have been proposed as efficient in the first place as they lack sufficient justification.

After making scope adjustments, we then apply continuing and catch up efficiency. In the following two sections we respond to DPIE and WaterNSW's comments regarding the level of these efficiency targets.

**It is incorrect to sum DPIE's own efficiency challenge with that recommended by us as they are not made on a comparable basis.** The internal “efficiencies” that DPIE refers to are addressed in our Final Report where we state that we consider that a large proportion of these are not genuine efficiencies and we also question the overall credibility of DPIE's proposed efficiency challenge. For example, we identify that 44% of DPIE's efficiency challenge is exclusion of costs that duplicate services delivered by WaterNSW. We consider that these costs should never have been identified by DPIE in its efficiency challenge.

Despite our reservations regarding DPIE's own efficiency challenge, the efficiency methodology we applied avoids any potential double-counting by not applying catch-up efficiency to the activity codes which DPIE had nominated as where it would achieve its efficiencies.

### 3.2 Catch-up efficiency for operating expenditure

Both WaterNSW and DPIE expressed concern that our methodology for identifying potential efficiencies was arbitrary and lacked an analytical basis. We note that the methodology employed by us has been applied to regulated water businesses in New South Wales across many expenditure reviews for more than 10 years. The methodology's theoretical basis and the concepts of a frontier company, continuing efficiency and catch-up efficiency are well established. WaterNSW questions whether an efficient frontier has been established analytically. We note that the methodology requires determination of movement at the frontier (continuing efficiency) and toward the frontier (catch-up efficiency).

Catch-up efficiency was determined by us based on our review of the maturity of the processes used to deliver WAMC services and through consideration of the level of efficiency achieved by other regulated businesses. Continuing efficiency was supplied to us by IPART based on its own analysis.

DPIE states that it believes that efficiency measures should be well targeted and achievable to incentivise meaningful action. WaterNSW expresses similar concerns regarding achievability. In response we note that:

- > Targeting – we have applied scope adjustments to specific activities based on the information we have reviewed. That is, they are well targeted to the activities where we consider these efficiencies may be gained. Further, we applied two different levels of catch-up efficiency to DPIE's activities to again better target where we consider efficiencies may be gained.

- > Achievability – as set out in our Final Report, the level of catch-up efficiency applied by us has been compared with that achieved by other regulated water businesses in New South Wales. We have also not applied catch-up targets to all activities to recognise DPIE's own efficiency challenge and WaterNSW's demonstrated efficiency for activities in the W01 and W02 groups. Consequently, the effective level of catch-up efficiency applied by us is 0.84% per annum for DPIE's activities and 0.55% per annum for WaterNSW's activities. Both of these figures are at the lower bound of catch-up efficiency applied to the total WAMC business in the 2016 Determination and substantially lower than the catch-up efficiency achieved by the two comparator businesses referred to in the Final Report being 1.1% per year achieved by Hunter Water and 1.63% per year by Sydney Water. Further, we have identified in our Final Report areas in which we consider that WAMC will be able to realise efficiencies in the future period.

On this basis of the above analysis, we consider that the level of catch-up efficiency applied by us is both well justified and achievable. The catch-up efficiencies proposed by us are also demonstrably targeted and achievable, as desired by DPIE.

WaterNSW also submitted that activity W05-02 Blue green algae management is a water monitoring activity (i.e. consistent with the activities within groups W01 and W02) and therefore should not be subject to a catch-up efficiency consistent with the approach taken for these groups. We agree with this position and therefore have adjusted our recommended operation expenditure for this activity so that catch-up efficiency is not applied.

### 3.3 Catch-up efficiency for capital expenditure

WaterNSW responded to the Draft Determination noting that the proposed efficiencies for capital expenditure applied to the WAMC business are "*excessive and unachievable without compromising our financial and service standard outcomes*". These efficiencies were adopted by us from the recommendations of the review of WaterNSW's Rural Valleys expenditure. The consultant for this review (Atkins) has considered WaterNSW's response to the Draft Determination and considers that there is no grounds for it to change the level of catch-up efficiency recommended in its Final Report. We support this conclusion and also recommend that the same level of catch-up efficiency be likewise applied to WaterNSW's WAMC expenditure.

WaterNSW also responded to the Draft Determination that it considers that the level of catch-up efficiency applied to its WAMC capital expenditure should not apply to capital expenditure for water monitoring assets. The application of efficiency targets to water monitoring capital expenditure is set out in Table 7-9 of our Final Report. Over four years of the future period, the recommended level of catch-up efficiency applied by us was \$1.355 million out of a proposed \$26.136 million total capital program. This equates to an efficiency of 5% over the four year period applied with an increasing profile.

WaterNSW's arguments relate to the level of efficiency that it has demonstrated that it has achieved for water monitoring expenditure in the current period. It therefore argues that there is less catch-up efficiency able to be achieved by it in the future period (i.e. it is closer to the frontier than suggested by us). However, we note that:

- > The efficiencies achieved in the current period and the associated discussion on how these were achieved relate almost entirely to operating expenditure and the business processes that underlie these costs.
- > The capital expenditure program for water monitoring in the future period is a substantial increase on that in the current program and therefore we consider that there is increased opportunity to achieve efficiencies. Expenditure is proposed to increase from a current level of \$2.49 million per year to \$6.56 million per year. This is an increase by a factor of more than 2.5x. This step change in expenditure also suggests a business in transition in this area, not one that has reached an efficient frontier.

Based on the above two considerations, we do not accept WaterNSW's position that the catch-up efficiencies for capital expenditure should not apply to water monitoring capital expenditure.

## 4 Operating expenditure

### 4.1 Allocation of corporate expenditure

In parallel to its review of WAMC expenditure, IPART is conducting a review into the efficiency and allocation of WaterNSW's corporate costs. The findings from this review have been considered by IPART in its Draft Determination for WaterNSW's Rural Valleys business.

This review recommended that WaterNSW move to a direct cost allocation approach for allocation of corporate operating expenditure to the regulated business. The methodology recommended, "Option B", includes non-core expenditure for allocation. We applied this recommendation to our findings in our Final Report. The impact of this changed approach to allocation was to increase operating expenditure allocated to the WAMC business by \$2.06 million over the first four years of the regulatory period.

Following consideration of submissions on the Draft Determination for the review of WaterNSW's Rural Valleys expenditure, the review consultant (Atkins) has recommended that while its overall approach is still appropriate, that an adjustment be made to recognise the nature of electricity costs for the Broken Hill Pipeline business. As a result, the Broken Hill Pipeline business is recommended to receive a smaller allocation of corporate expenditure which in turn means that the proportion of costs allocated to the WAMC business has increased. This adjustment results in a 13% (\$277k) increase in costs allocated to the WAMC business over the four year period to 2024/25 compared with that included in our Final Report.. The impact of this recommendation results in the recommended reallocation of WaterNSW overheads to the WAMC business as shown in Table 4-1. This recommendation has been accounted for in arriving at our revised recommended efficient operating expenditure for WAMC's activities. The allocation for year 2025/26 is estimated as an average of the preceding four years.

Table 4-1 Recommended reallocation of WaterNSW overheads to WAMC

	2021/22	2022/23	2023/24	2024/25	2025/26
Reallocation of WaterNSW overheads to WAMC	334	486	466	1,055	585

For the Final Report, WaterNSW allocated these costs to activity codes to achieve consistency with its costing approach. For this Supplementary Report, we have allocated the adjusted overheads to individual activity code in the same proportions as applied for the Final Report, As WaterNSW does not disaggregate costs for the W01 and W02 activity groups, we have assigned costs for these groupings to activity codes in proportion to operating expenditure. Also, the findings from the review of WaterNSW's corporate costs only makes recommendations for the four year period to 2024/25. As we have made recommendations for the five year period to 2025/26, we have averaged the preceding years to arrive at a recommendation for 2025/26. The resulting additional costs applied to each activity code is set out in Table 4-2.

Table 4-2 Additional overhead operating expenditure allocated to WAMC arising from review of WaterNSW corporate costs

		21/22	22/23	23/24	24/25	25/26	Total (21/22 to 24/25)	Total (21/22 to 25/26)
W01-01	Surface water quantity monitoring	102	148	143	327	180	719	899
W01-02	Surface water data management and reporting	10	14	13	31	17	68	85
W01-03	Surface water quality monitoring	22	32	31	72	39	158	197
W01-04	Surface water algal monitoring	14	20	19	44	24	97	121
W02-01	Groundwater quantity monitoring	12	17	17	38	21	84	106
W02-02	Groundwater quality monitoring	47	68	66	151	83	333	416
W08-02	Consents management and licence conversion	13	19	19	41	23	92	115

		21/22	22/23	23/24	24/25	25/26	Total (21/22 to 24/25)	Total (21/22 to 25/26)
W10-03	Billing management	33	46	41	95	54	216	270
W10-01	Customer management	78	116	113	246	138	553	691
W08-03	Compliance management	3	4	4	10	5	21	27
	Total	334	486	466	1,055	585	2,342	2,927

## 4.2 Additional regulatory resources

The parallel review of the efficiency and allocation of WaterNSW's corporate costs also recommended that WAMC operating expenditure for the future period include \$170k per annum for additional regulatory resources. This recommendation was not included in our Final Report. This recommendation has been included in our revised recommendations by pro-rating this amount in the same proportion as for corporate expenditure as discussed in the preceding section. The allocation of this additional regulatory resource to activity codes is set out in Table 4-3.

Table 4-3 Allocation of additional regulatory resourcing to activity codes

		2021/22	2022/23	2023/24	2024/25	2025/26
W01-01	Surface water quantity monitoring	52	52	52	53	52
W01-02	Surface water data management and reporting	5	5	5	5	5
W01-03	Surface water quality monitoring	11	11	11	12	11
W01-04	Surface water algal monitoring	7	7	7	7	7
W01-05	Surface water ecological condition monitoring	-	-	-	-	-
W02	Groundwater monitoring	-	-	-	-	-
W02-01	Groundwater quantity monitoring	6	6	6	6	6
W02-02	Groundwater quality monitoring	24	24	24	24	24
W02-03	Groundwater data management and reporting	-	-	-	-	-
W08-02	Consents management and licence conversion	7	7	7	7	7
W10-03	Billing management	17	16	15	15	16
W09-01	Water consents transactions	-	-	-	-	-
W10-01	Customer management	40	41	41	40	40
W10-02	Business governance and support	-	-	-	-	-
Partial mapped to W03-01	Meter Maintenance	-	-	-	-	-
W08-03	Compliance management	2	2	2	2	2

## 4.3 DPIE corporate overheads

In response to the Draft Determination, DPIE advised IPART that it considered that its level of overheads should be reassessed to be a higher rate. DPIE's reasoning is that its level of applied overheads was based on a methodology that assumed a level of resourcing (FTEs) which in turn was dependent on the level of expenditure that would be allowed for within the Determination.

Overheads were included in DPIE's proposed expenditure forecasts by applying a rate of \$14.83 per hour worked. The derivation of this rate is shown in Figure 4-1.

Component	Sub component	% of overhead	Total cost
Corporate services	Corporate services	30%	\$ 1,764
	PPC	10%	\$ 617
	Legal & gov	7%	\$ 397
	Strategy and Reform	2%	\$ 132
	MLO	1%	\$ 44
Accommodation	Annual workstation rate	35%	\$ 2,064
W10-02 (Business & Gov support)	IPART submission related costs - developing AIR and next pricing submission	16%	\$ 942
Total overhead costs			\$ 5,960
FTEs			262.19
Std Hours			1533
Baseline unit rate/hour (\$)			\$ 14.83
Baseline unit rate/FTE			\$ 23

Figure 4-1 Derivation of WAMC overhead rate

Source: DPIE RFI Item 41

Without investigating the corporate expenditure items in detail, the above breakdown shows that the two largest components of overhead expenditure are workstations (35%) and corporate services (30%). These items should be largely variable with the number of employees. Any recalculation of the overhead rate would suggest that DPIE is not taking on sufficient risk and responsibility for controlling its costs. A business in a competitive environment would bear risks relating to the level of overheads in almost every circumstance.

We also note that the level of overheads applied by DPIE which were 12% of total expenditure is within the range of efficient overheads cited at the industry benchmarks documented by IPART and its consultant as part of the 2016 Determination (7 – 14% of total operating expenditure). Any recalculation of overheads would push the total level further to the upper end of this range or perhaps outside of it.

Based on the above analysis, we consider that the level of overheads included in the recommended level of efficient operating expenditure for DPIE is efficient and should not be recalculated as suggested by DPIE.

#### 4.4 W04 Water Modelling (surface and groundwater)

Our Final Report recommended the following adjustments to water modelling expenditure:

- > A reduction for W04-01 Surface water modelling expenditure to be in line with expenditure recommended at the 2016 Determination (which is above expenditure in the current period). The magnitude of the adjustment applied in our Final Report is \$252k per annum (7%).
- > A reduction for W04-02 Groundwater modelling to be in line with expenditure in the current period. The magnitude of the adjustment applied in our Final Report is \$147k per annum (14%).

The basis for our applied adjustments is that the required outputs for the modelling activities has not obviously changed between the current period and the future period as evidenced by the proposed outputs measures and performance indicators being unchanged for these activities.

In its submission to the Draft Determination, DPIE states:

*We disagree with IPART’s interpretation that our obligations for this activity are largely ‘business as usual’ and unchanged from the current determination period. We consider that our 2020 pricing*

*submission to IPART clearly articulated the increased scope of modelling work. This is an incremental and material increase to what was reviewed for inclusion in the 2016 determination period. The additional work includes modelling to support several expanded Government priorities including floodplain harvesting, regional water strategies, and sustainable diversion limit adjustment mechanism (SDLAM) projects.*

*It is positive that WAMC's 2016 notional revenue requirements were cushioned due to arrangements for external funding of this increased activity and the avoidance of double counting. However, these funding agreements have expired. This means that there is now no alternate funding for these WAMC monopoly services. We request that IPART review the information included in our submissions relative to the 2016 determination scope of works when finalising the revenue requirement.*

We challenged DPIE to provide more evidence to support this claim and to detail the planning work that it has undertaken to support its expenditure forecasts. DPIE responded with further information that both justifies the need for this expenditure and demonstrates that it has taken on a material level of risk of underperformance in this area, even at its level of proposed expenditure given that it has applied an efficiency challenge of its own which we consider has credibility given it represent a substantial reduction in resourcing levels first proposed by the business SMEs.

The additional expectations of modelling include:

- > Move to the Source software platform reflecting good practice
- > Increased expectations of transparency and challenging modelling outputs by informed stakeholders
- > Modelling to support floodplain harvesting policy implementation
- > Supporting regional water strategies
- > incorporation of new climate risk data sets
- > testing formulations for long term environmental watering plans.

We comment in Section 2.2 that we consider that the above factors suggest that the user share for W04-01 Surface water modelling be revised.

We accept based on the additional information provided by DPIE that there is a material change in activity required for these activities and we recommend that IPART accept as efficient the level of operating expenditure originally proposed by DPIE. This recommendation would increase operating expenditure for W04-01 Surface water modelling by \$252k per year and increase operating expenditure for W04-2 Groundwater modelling by \$147k per year.

## 4.5 W05-04 Water plan performance assessment and evaluation

For this activity, DPIE has proposed expenditure of \$3.7 million per year which is 39% higher than the average annual expenditure allowed for in the 2016 Determination, and 82% higher than the average annual expenditure incurred during the current period. In our Final Report, we concluded that expenditure should be in line with that allowed for in the 2016 Determination given the absence of strong evidence that the fundamental requirement to undertake ten-yearly reviews of plans is unchanged between the current and future period. This adjustment represents a reduction in average annual expenditure of \$1.0 million.

In its response to the Draft Determination, DPIE advised that we had misunderstood the materiality of the implications from the National Resources Commission now undertaking independent reviews of plans and making recommendations from its reviews that DPIE is expected to consider and act on if appropriate. DPIE states that "*The NRC has raised issues about the adequacy of implementation in its recent water sharing plan reviews. This was also highlighted in audits of plans under s44 of the Water Management Act 2000.*". DPIE also explained further in our discussions regarding the Draft Determination that it now has to fund activities for monitoring the Basin-wide Environmental Watering Strategy outcomes which had been funded by the Commonwealth previously but are required to be funded by States from 2020.

In addition to these drivers, DPIE points to the increased expectations for improved measurement of performance and achievement of objectives arising from external reviews and assessments which need to be supported by increased monitoring and evaluation.

DPIE states in response to these step changes in expectations:

- > That while its environmental monitoring requirements have increased it will find efficiencies to deliver these activities in current expenditure levels

- > It cannot meet the increased expectations on it for reporting and social and economic monitoring without comprising in other areas.

DPIE goes on to detail the resourcing it needs to complete additional reporting and social and economic monitoring work and sets out that this additional resourcing (6.15 FTE, \$923k) is broadly in line with the level of our recommended adjustment in expenditure.

DPIE also states that it is currently developing an evaluation framework to describe appropriate levels of service that are commensurate to the risks to water resources and dependent communities for each plan. This is concerning to us because it suggests that the expenditure proposed by DPIE does not represent an informed trade-off between service, cost and risk. It appears that there is sufficient scope for DPIE challenge and optimise the level of service it provides through this activity in discussion with both Government and users. Evaluation of levels of service should also consider affordability.

While acknowledging that DPIE has made strong representations in this area, we recommend that the efficient level of expenditure for this activity is consistent with that recommended in our Final Report so that DPIE is appropriately challenged to arrive at the level of service for this activity that is balanced with risk and cost (including affordability). We consider that a large increase in expenditure at this time without stronger evidence of the objectives that will be supported and activities that will be undertaken would not be appropriate when considering the potential for efficient costs.

#### 4.6 W06-05 Regional planning and management strategies

DPIE's proposed expenditure for W06-05 Regional planning and management strategies for the future period averages \$5.9 million per year which is \$3.9 million per year (207%) higher than the average annual expenditure allowed for in the 2016 Determination, and \$3.4 million per year (136%) higher than the average annual expenditure incurred during the current period. Expenditure to finalise and implement the metropolitan and regional strategies and to then start the process of ongoing monitoring, review and update of the plans on a rolling cyclic basis is driving this substantial increase.

In our Final Report, we proposed a reprofiling of this expenditure in the first two years of the program so that:

1. Stakeholder engagement is prioritised and
2. The findings from the Auditor General's report, as well as the other changes occurring in the operating environment at this time can be adequately accounted for and incorporated into future planning.

DPIE challenged these recommendations based on the following three main arguments:

- > Activity in this area has already been accelerated to meet delivery programs with approximately 42 FTE in place for the overall program. DPIE provided organisational charts and records of staff costs to support that this resource level is in place
- > Stakeholder engagement and planning are linked processes, not separate and the approach being undertaken uses stakeholder feedback in a timely manner. Our recommendation infers an unnecessary extension to engagement.
- > It is able to demonstrate sound resource planning for the engagement process.

We acknowledge the arguments made by DPIE in the above areas and consider that it has provided additional assurance regarding our first concern regarding the effectiveness of the approach to stakeholder engagement.

However, we maintain our concern that the timing of this large ramp up in expenditure is not an optimal approach because the context has changed and is changing quickly reflected by the findings of the Auditor - General report and easing of drought conditions. We therefore consider that not all of the total expenditure proposed by DPIE for this activity should be considered efficient. Recognising that DPIE has addressed our concerns regarding its approach to stakeholder engagement we recommend that a lower scope adjustment than previously proposed, of 10%, (compared with 25% previously) be applied to the first two years of expenditure for the future period.

#### 4.7 W06-07 Cross border and national commitments

In our Final Report, we recommended an adjustment to the intergovernmental activities component of activity W06-07 Cross border and national commitments. We considered that around one-quarter of the effort for intergovernmental activities falls outside the scope of a WAMC monopoly services based on a semi-quantitative assessment of the forward work program in this area. We therefore recommended that proposed

expenditure for the intergovernmental component of this activity be reduced by this proportion. We also proposed a further adjustment of 5% to reflect the expected efficiencies arising from implementation of the recommendations of the Claydon review.

DPIE responded to the Draft Determination by stating that it considered that the one-quarter adjustment in scope had been made in error. DPIE acknowledges that its proposed activities include policy development but that because policy development supports WAMC activities it is therefore in the scope of WAMC activities. DPIE further noted that the current user share for this activity being 50% Government share and 50% user shares “*acknowledge(s) the validity of efficient policy development costs being included in the Government share within the WAMC price determination*”.

DPIE’s position misunderstand how WAMC monopoly services are defined and then user shares applied. As noted in Section 4.2 and Section 8.15.2 of our Final Report, the definition of monopoly services is guided by the Pricing Order and Appendix B of the National Water Initiative Pricing Principles. The National Water Initiative Pricing Principles make clear that Policy Development is outside the scope of pricing for water management. It is on this basis that one-quarter of costs for intergovernmental activities have been excluded. User shares are only applied to the cost of activities within the scope of WAMC monopoly services. As policy development is not within the scope of WAMC monopoly services, there are no relevant user share considerations.

In its response to the Draft Determination DPIE specifically questions our assessment of the SDLAM National Partnerships Agreement and its response to the ACCC water market reform as not being within the scope of WAMC monopoly services because it considers that these activities are about operationalising policy rather than policy development. DPIE expands further that it considers that the SDLAM works do fall within the definition of management and planning activities. In considering this information we note that there are multiple SDLAM activities within the scope of intergovernmental activities provided by DPIE to us. These are listed below along with the number of staff DPIE has identified as being involved and our assessment of the policy component of the activity:

- > SDLAM National Partnership Agreement (Staff involved - 5). Assessed policy component - 100%
- > Feasibility of delivery of supply and constraints measure projects by 30 June 2024. (Staff involved - 5). Assessed policy component - 50%
- > Other SDLAM related matters (Staff involved - 3). Assessed policy component - 20%

As can be seen from the above, our assessment acknowledges for the SDLAM works that there is an operational component of the works. We have not assigned all SDLAM activities as being related to policy development.

For the water market reform activity, DPIE notes:

*The ACCC released its final report into Murray-Darling Basin Water Markets on 26 March 2021 which contains 29 recommendations. Some aspects of these recommendations relate specifically to NSW, while most apply jointly to Basin governments.*

*Water market reform is a significant issue for NSW given the estimated value of Murray-Darling Basin entitlements is \$26.3 billion.*

*NSW will need to consider the report and recommendations and make decisions on implementation of recommendations that will improve the administration of water trading arrangements.*

*Implementation of recommendations that require the joint implementation and ‘buy in’ of other Basin States will require discussions and negotiations with other States and the Commonwealth.*

*Negotiations for Commonwealth funding to implement recommendations will also be required. These discussions and negotiations will be led by the Intergovernmental team.*

There is nothing in the above additional information that refers to operationalisation of policy rather than policy development.

We recommend that IPART maintains our recommended adjustments to operating expenditure for this activity code.

The above discussion supports our recommendation that DPIE undertakes an assessment of the intergovernmental activities component of this activity code and tests them against the National Water Initiative Pricing Principles Appendix B to inform future pricing proposals.



## 4.8 W08-03 Compliance management

In its response to the Draft Determination, NRAR was concerned that our recommended level of expenditure for compliance management to be included in user charges determined through benchmarking shouldn't be taken to reflect what the total level of expenditure for this activity should be in 2025. DPIE and NRAR note that under the current policy settings for metering reform, metering will not be extensively implemented with only 25% of sites metered by 2025.

We agree with DPIE and NRAR's position and we agree that the level of expenditure we determined for a "mature" compliance function should not be taken to be what we consider expenditure for this function should be in the next regulatory period (from 2025). In addition to the extent of metering put in place, the operating context may change over coming years and expenditure needs for compliance management in the future period should be assessed based on the circumstances prevailing at that time.

We understand that NRAR has commenced benchmarking activities and costs in this area in conjunction with MDBA and the other Basin States. This work may provide further information to understand the drivers for NRAR's costs and the long term efficiency level of expenditure.

## 4.9 W10-01 Customer management

In our Final Report, we raised concerns that the substantial uplift in expenditure proposed compared with that set by the 2016 Determination was not supported by a strong link between expenditure and the activity. We therefore recommended that costs for the future period be aligned with forecast outturn for the current financial year.

In response to the Draft Determination, WaterNSW has submitted that it considers its approach to forecast future costs remains appropriate as it uses a longer term average of costs over three years and is therefore more representative of likely future costs. WaterNSW is also concerned regarding the achievability of an efficiency adjustment of this magnitude which equates to a 27% reduction on its submitted costs (the proposed adjustment is \$1.2 million per year). WaterNSW also raises concerns regarding its ability to meet customer service expectations given an adjustment of this magnitude.

While not accepting that the efficiency adjustment is appropriate, WaterNSW has submitted that its updated forecast for outturn costs for the current year are higher than that on which our Final Report and the Draft Determination was based; now being \$3.7 million compared with \$3.4 million previously submitted.

We note WaterNSW's concerns in this area particularly given the magnitude of the recommended adjustment which is the largest adjustment proposed for this review. However, WAMC's proposed costs in this area are 174% higher (\$3.3 million per year) than allowed for in the 2016 Determination. WaterNSW argues that the 2016 Determination allowance is not an appropriate reference point given that it was not involved in this process, cannot determine the basis on which forecasts were made and because it considers that there are clear shortfalls in the recommended levels of expenditure. However, WaterNSW has not undertaken any analysis in the current to understand the drivers for why its costs are materially higher. This analysis would help better support its position. Also, there are limitations in WaterNSW's allocation of costs to activities.

Therefore, we recommend that the efficient level of operating expenditure in the future period be consistent with the approach taken by us in the Final Report but updated for WaterNSW's latest forecast for costs for this activity in the current year, leading to a scope adjustment of proposed expenditure of \$870k per year. Our recommended level of efficient operating expenditure for WaterNSW for this activity in the future period is set out in Table 4-4.

Table 4-4 Recommended efficient operating expenditure for WaterNSW's W10-01 customer management activity

	2021/22	2022/23	2023/24	2024/25	2025/26	Total	Average
<b>Proposed operating expenditure</b>	4,385	4,640	4,672	4,411	4,761	22,869	4,574
Adjustments	-870	-870	-870	-870	-870	-4,350	-870
Proposed expenditure net of adjustments	3,515	3,770	3,802	3,541	3,891	18,519	3,704
Catch-up efficiency (%)	-1.1%	-2.2%	-3.3%	-4.3%	-5.4%		
Catch-up efficiency (\$)	-39	-82	-124	-153	-209	-608	-122
Proposed expenditure net of adjustments and catch-up efficiency	3,476	3,688	3,678	3,388	3,681	17,911	3,582

	2021/22	2022/23	2023/24	2024/25	2025/26	Total	Average
Continuing efficiency (%)	-0.7%	-1.4%	-2.1%	-2.8%	-3.5%	0	0
Continuing efficiency (\$)	-24	-51	-77	-94	-127	-373	-75
Reallocation of WaterNSW overheads to WAMC and additional regulatory resource (See section 4.1 and 4.2)	117	157	154	286	178	892	178
Recommended efficient expenditure	3,569	3,793	3,755	3,580	3,733	18,430	3,686

#### 4.10 Recommended efficient operating expenditure

Based on the adjustments discussed above, the recommended efficient operating expenditure to be included in the calculation of user charges for activities delivered by DPIE is set out in Table 4-5. Note that this excludes expenditure for fee for service activities.

Table 4-5 Recommended efficient operating expenditure - DPIE

	2021/22	2022/23	2023/24	2024/25	2025/26
Proposed operating expenditure	51,130	51,203	49,630	49,246	49,246
Adjustments	-13,895	-13,967	-13,965	-13,616	-13,607
Proposed expenditure net of adjustments	37,235	37,236	35,664	35,631	35,639
Catch-up efficiency (\$)	-315	-626	-870	-1,147	-1,425
Proposed expenditure net of adjustments and catch-up efficiency	36,920	36,610	34,794	34,483	34,214
Continuing efficiency (\$)	-260	-515	-731	-963	-1,190
<b>Recommended efficient expenditure</b>	<b>36,659</b>	<b>36,095</b>	<b>34,063</b>	<b>33,520</b>	<b>33,024</b>

The recommended efficient operating expenditure for each activity delivered by DPIE is set out in Table 4-6.

Table 4-6 Recommended efficient operating expenditure by activity code - DPIE

		21/22	22/23	23/24	24/25	25/26
W01	Surface water monitoring					
W01-01	Surface water quantity monitoring	-	-	-	-	-
W01-02	Surface water data management and reporting	-	-	-	-	-
W01-03	Surface water quality monitoring	-	-	-	-	-
W01-04	Surface water algal monitoring	-	-	-	-	-
W01-05	Surface water ecological condition monitoring	309	304	299	264	260
W02	Groundwater monitoring					
W02-01	Groundwater quantity monitoring	-	-	-	-	-
W02-02	Groundwater quality monitoring	-	-	-	-	-
W02-03	Groundwater data management and reporting	-	-	-	-	-
W03	Water take monitoring					
W03-01	Water take data collection	-	-	-	-	-
W03-02	Water take data management and reporting	-	-	-	-	-
W04	Water modelling and impact assessment					
W04-01	Surface water modelling	3,533	3,508	3,484	3,459	3,435
W04-02	Groundwater modelling	1,063	1,056	1,048	1,041	1,034
W04-03	Water resource accounting	593	583	574	565	556
W05	Water management implementation					

		21/22	22/23	23/24	24/25	25/26
W05-01	Systems operation and water availability management	2,736	2,717	2,698	2,679	2,660
W05-02	Blue-green algae management	-	-	-	-	-
W05-03	Environmental water management	1,105	1,082	1,059	1,037	1,016
W05-04	Water plan performance assessment and evaluation	2,617	2,598	2,580	2,562	2,544
W06	Water management planning					
W06-01	Water plan development (coastal)	1,716	1,680	1,645	1,610	1,577
W06-02	Water plan development (inland)	2,914	2,853	2,793	2,735	2,678
W06-03	Floodplain management plan development	2,127	2,082	1,452	1,350	1,322
W06-04	Drainage management plan development	-	-	-	-	-
W06-05	Regional planning and management strategies	5,957	5,833	4,967	4,863	4,761
W06-06	Development of water planning and regulatory framework	1,557	1,525	1,493	1,462	1,431
W06-07	Cross border and national commitments	1,578	1,559	1,548	1,603	1,592
W07	Water management works					
W07-01	Water management works	2,119	2,085	2,052	2,019	1,987
W08	Water regulation management					
W08-01	Regulation systems management	-	-	-	-	-
W08-02	Consents management and licence conversion	630	617	604	591	579
W08-03	Compliance management	5,824	5,731	5,485	5,397	5,311
W08-99	Water consents overhead	-	-	-	-	-
W09	Water consents transactions					
W09-01	Water consents transactions	-	-	-	-	-
W10	Business and customer services					
W10-01	Customer management	283	283	283	283	283
W10-02	Business governance and support	-	-	-	-	-
W10-03	Billing management	-	-	-	-	-
	<b>Total</b>	36,659	36,095	34,063	33,520	33,024

Based on the adjustments discussed above, the recommended efficient operating expenditure to be used for the calculation of user charges for activities delivered by WaterNSW is set out in Table 4-7. This table also shows the impact of the inclusion of reallocated corporate costs as described in Section 4.1 and the additional regulatory resource as set out in Section 4.2. Note that this excludes expenditure for fee for service activities.

Table 4-7 Recommended efficient operating expenditure - WNSW

	2021/22	2022/23	2023/24	2024/25	2025/26
Proposed operating expenditure	18,821	19,365	19,318	18,920	20,008
Adjustments	-870	-870	-870	-870	-870
Proposed expenditure net of adjustments	17,951	18,495	18,448	18,050	19,138
Catch-up efficiency (\$)	-71	-147	-217	-273	-365
Proposed expenditure net of adjustments and catch-up efficiency	17,880	18,347	18,231	17,777	18,773
Continuing efficiency (\$)	-125	-256	-380	-493	-648

	2021/22	2022/23	2023/24	2024/25	2025/26
Reallocation of WaterNSW overheads to WAMC	504	656	636	1,225	755
<b>Recommended efficient expenditure</b>	<b>18,258</b>	<b>18,747</b>	<b>18,487</b>	<b>18,509</b>	<b>18,880</b>

The recommended efficient operating expenditure for each activity delivered by WNSW is set out in Table 4-8.

Table 4-8 Recommended efficient operating expenditure by activity code - WNSW

		21/22	22/23	23/24	24/25	25/26
W01	Surface water monitoring					
W01-01	Surface water quantity monitoring	5,484	5,635	5,616	5,665	5,755
W01-02	Surface water data management and reporting	518	531	529	535	541
W01-03	Surface water quality monitoring	1,204	1,236	1,232	1,246	1,261
W01-04	Surface water algal monitoring	741	761	758	768	777
W01-05	Surface water ecological condition monitoring	-	-	-	-	-
W02	Groundwater monitoring					
W02-01	Groundwater quantity monitoring	585	601	598	751	771
W02-02	Groundwater quality monitoring	2,543	2,611	2,599	2,612	2,660
W02-03	Groundwater data management and reporting	-	-	-	-	-
W03	Water take monitoring					
W03-01	Water take data collection	-	-	-	-	-
W03-02	Water take data management and reporting					
W04	Water modelling and impact assessment	-	-	-	-	-
W04-01	Surface water modelling					
W04-02	Groundwater modelling	-	-	-	-	-
W04-03	Water resource accounting	-	-	-	-	-
W05	Water management implementation	-	-	-	-	-
W05-01	Systems operation and water availability management					
W05-02	Blue-green algae management	612	621	618	606	625
W05-03	Environmental water management	177	178	175	143	174
W05-04	Water plan performance assessment and evaluation					
W06	Water management planning	-	-	-	-	-
W06-01	Water plan development (coastal)					
W06-02	Water plan development (inland)	-	-	-	-	-
W06-03	Floodplain management plan development	-	-	-	-	-
W06-04	Drainage management plan development	-	-	-	-	-
W06-05	Regional planning and management strategies	-	-	-	-	-
W06-06	Development of water planning and regulatory framework	-	-	-	-	-
W06-07	Cross border and national commitments	-	-	-	-	-
W07	Water management works	-	-	-	-	-
W07-01	Water management works					

		21/22	22/23	23/24	24/25	25/26
W08	Water regulation management					
W08-01	Regulation systems management	-	-	-	-	-
W08-02	Consents management and licence conversion	753	764	753	738	718
W08-03	Compliance management	173	175	172	171	170
W08-99	Water consents overhead					
W09	Water consents transactions					
W09-01	Water consents transactions					
W10	Business and customer services					
W10-01	Customer management	3,569	3,793	3,755	3,580	3,733
W10-02	Business governance and support	-	-	-	-	-
W10-03	Billing management	1,899	1,839	1,682	1,695	1,694
	<b>Total</b>	18,258	18,747	18,487	18,509	18,880

## 5 Capital expenditure

### 5.1 Corporate capital expenditure adjustments from Rural Valleys and Corporate costs review

In our Final Report, we applied findings from the previously mentioned review of WaterNSW's corporate expenditure to recommend the following adjustments to WAMC capital expenditure:

- > Reduction in capital expenditure for ICT projects of \$0.8 million per year to reflect reallocation of expenditure to the regulated businesses driving the expenditure
- > Reallocation of \$60k per year to the WAMC business for the Integrated Business Systems project following an assessment of the drivers for the project. WaterNSW had allocated none of the \$1.62 million expenditure to WAMC but the Atkins assessment was that 16% of expenditure should be allocated to WAMC.
- > Adjustment of expenditure for vehicle procurement to be in line with the medium term trend resulting in a reduction in recommended expenditure of \$2.56 million in 2023/24 and an increase of \$200k in 2024/25.

In response to the Draft Determination, WaterNSW responded that it opposed the adjustment for expenditure on vehicle procurement. In the Supplementary Report prepared by Atkins for WaterNSW's Rural Valleys and Corporate expenditure, Atkins revisited this area and increased its recommended efficient expenditure. Atkins recommended that expenditure for 2023/24 be reduced by \$1.20 million compared with WaterNSW's proposal (i.e. an increase of \$1.3 million compared with its draft Supplementary Report. We agree with this revised recommendation and have reflected this in our recommended capital expenditure for WAMC for the future period. The revised recommended efficient corporate capital expenditure for WAMC for the future period is set out in Table 5-1.

Table 5-1 Revised recommended efficient corporate capital expenditure

	2021/22	2022/23	2023/24	2024/25	Total
<b>Proposed capital expenditure</b>	3,609	3,857	6,051	2,418	<b>15,935</b>
Adjustments	-740	-740	-1,940	-740	-4,159
Proposed capital expenditure net of adjustments	2,869	3,117	4,111	1,679	11,776
Catch-up efficiency (%)	-2.1%	-4.2%	-6.8%	-7.4%	
Catch-up efficiency (\$)	-61	-132	-281	-125	-598
Proposed capital expenditure net of adjustments and catch-up efficiency	2,808	2,986	3,830	1,554	11,178
Continuing efficiency (%)	-0.70%	-1.40%	-2.09%	-2.77%	0
Continuing efficiency (\$)	-20	-42	-80	-43	-184
<b>Recommended efficient capital expenditure</b>	<b>2,789</b>	<b>2,944</b>	<b>3,750</b>	<b>1,511</b>	<b>10,994</b>

### 5.2 Capital expenditure in the current period

In our Final Report we recommended that corporate capital expenditure incurred in the current period by WaterNSW for the WAMC business be subject to a phasing in for inclusion within the WAMC asset base. This was because we considered that the expenditure in the current period was a consequence of WaterNSW's cost allocation methodology rather than being genuinely reflective of needs for the WAMC business. As the total expenditure incurred by WaterNSW has been subject to separate review and been found to be prudent and efficient, this recommendation requires that the balance of expenditure (\$7.39 million) be included in the regulatory asset base of WaterNSW's other regulated businesses.

In its submission on the Draft Determination, WaterNSW provides the following arguments as to why it considers that this phased approach to recognition of the WAMC capital expenditure is inappropriate:

- > The nature of the capital expenditure relates mainly to accommodation and ICT projects of which the WAMC business has been appropriately allocated the expenditure.
- > Under the regulatory model, capital expenditure enters the Regulatory Asset Base on an "as incurred" basis, not an "as commissioned" basis

- > Capital costs are recovered from the customers who benefit from the asset over the useful life of the asset and therefore not recognising these costs in earlier years means that pricing is not cost reflective.
- > Changing the Regulatory Asset Base of other regulated businesses would be inconsistent with the Water Charge Rules.

We consider that WaterNSW has made sound arguments in these areas. While we consider that our position for phasing in the recognition of WAMC capital expenditure reflects a pragmatic approach, we accept that there are material constraints to this in the regulatory framework and therefore we recommended that the WAMC corporate capital expenditure in the current period be accepted as prudent and efficient in its entirety without phasing in. Our revised recommended level of prudent and efficient capital expenditure in the current period is detailed in Table 5-2.

Table 5-2 Recommended prudent and efficient capital expenditure in the current period

	2016/17	2017/18	2018/19	2019/20	2020/21	Total	Average
Water monitoring capital expenditure	132	479	421	2,668	8,750	12,450	2,490
Corporate capital expenditure	4,697	4,500	6,465	7,087	7,031	29,780	5,956
<b>Total</b>	<b>4,829</b>	<b>4,979</b>	<b>6,886</b>	<b>9,755</b>	<b>15,780</b>	<b>42,229</b>	<b>8,446</b>

### 5.3 Recommended efficient capital expenditure

Our recommended efficient capital expenditure for all activities is summarised in Table 5-3. The recommended capital expenditure for the future period is unchanged from our Final Report.

Table 5-3 Recommended efficient capital expenditure for all activities

	2021/22	2022/23	2023/24	2024/25	Total
W01-01 Surface water quantity monitoring	2,307	2,325	2,260	2,231	9,123
W02-01 Groundwater quantity monitoring	3,855	3,882	3,771	3,722	15,230
W10-02 Business governance and support	2,789	2,944	3,750	1,511	10,994
<b>Total</b>	<b>8,951</b>	<b>9,151</b>	<b>9,781</b>	<b>7,464</b>	<b>35,346</b>

## 6 Fee for service activities

### 6.1 Consent transactions

Consent transactions cover a range of services that undertaken by both WaterNSW and NRAR. The transactions include gaining approvals for works, new licence approvals, dealings in licences, and changes to licence conditions. Dealings in licenses include activities such as assigning share components, consolidating licences, subdividing licences, and surrendering licences.

In our Final Report, we recommended that a relatively large efficiency challenge of 20% should be applied to the charges proposed by the agencies to arrive at efficient costs to account for:

- > the lack of validation of the costs that drive the proposed charges
- > the relative immaturity of the business processes in both agencies to capture and record costs that reflect the activities.

We were also required to align charging categories at WaterNSW and NRAR had proposed different structures. Further, we recommended that where a charge potentially includes a groundwater assessment that the charging structure have separate fees for transactions with and without groundwater assessment to increase cost reflectivity.

NRAR and DPIE responded to the Draft Determination that:

*For the public record, NRAR considers that its water consent transaction costs included in its proposal were adequately validated. NRAR commissioned a reputable consultant to develop a detailed, bottom-up cost model that was then tested and normalised by a top-down assessment. NRAR provided this complete model to Cardno, together with background notes about how it was constructed.*

We understand NRAR's position as it has developed a complex, bottom up model and sought to validate the model inputs. Our concern is that the validation did not extend to analysis of actual outturn time taken and costs for transactions at a granular level.

In response to the Draft Determination. NRAR and DPIE comment that "...while we are concerned that the recommended 20% decreases will impact groundwater assessment processing times, we accept that IPART has balanced cost reflectivity of charges with affordability considerations". We note in response to this position

Regarding the level of efficiency recommended by us, there was divergent opinions. DPIE and NRAR state that "...while we are concerned that the recommended 20% decreases will impact groundwater assessment processing times, we accept that IPART has balanced cost reflectivity of charges with affordability considerations" which encapsulates a concern over the processing time level of service but broad acceptance of the efficiency challenge. WaterNSW challenged our position in the final report commenting that level of efficiency applied is:

- > Excessive compared to the catch-up efficiency applied to other activities and lacking empirical support
- > Unachievable if applied from the first year of the future period
- > Not reflective of its actual costs to deliver these activities

WaterNSW also considers that the level of efficiency will put at risk its ability to achieve its service standards in this area and that it will compromise the customer service experience. We understand that the level of efficiency applied is substantial but this should also be considered alongside the very large (175% on average for WaterNSW's activities) increase that has been proposed and is the starting point to which this efficiency is applied. The lack of historical time and cost data to validate the proposed costs means that we consider that there is sufficient scope to achieve efficiencies of this magnitude and we maintain our recommended consent transaction charges made in our Final Report.

Considering further the NRAR and DPIE comment that "...we are concerned that the recommended 20% decreases will impact groundwater assessment processing times...", we note in response to this position that we have considered the balance between service delivery and cost in making our recommendation and do not consider that the processing times should be impacted. We also note that we have specifically recommended separate charges for consent transactions that include a groundwater assessment which acknowledges the additional complexity in these transactions and seeks greater cost reflectivity in pricing. We recommend that the performance indicators in this area remain unchanged.



## 6.2 Water take assessment charges

In our Final Report, we recommended that water take assessment charges be held constant in real terms at the levels set by the 2016 Determination. The charge recommended by us was \$207.08 per meter per year. WaterNSW had submitted its proposed charge as more than double this at \$416.00 per meter per year.

In arriving at the recommendation in our Final Report, WaterNSW had challenged our position by identifying the particular capability and skills that its resources for these activities possess and the appropriateness of its resource forecasts. In its submission on the Draft Determination, WaterNSW has revisited these arguments with some additional information and analysis. For example it notes that Goulburn-Murray Water levies a similar charge which is \$374.

We have considered WaterNSW's arguments and consider that there remains sufficient evidence that the proposed changes for these activities are not efficient because a business acting efficiently would identify changes to inputs (e.g. skills, technologies) and productivity gains (so that resourcing was more in line with activity) to offset proposed increases. We accept that there may be wider benefits in WaterNSW's proposed approach such as improved customer experience and improved corporate knowledge. However, we don't think that these benefits fall within the definition of efficient costs for this activity and therefore we recommend that IPART adopts the water take assessment charges recommended in our Final Report.

## 7 Output measures

In its review of the Draft Determination, NRAR identified two areas where it considered the proposed Output Measures may be improved. These are detailed in Table 7-1. We agree that these changes are appropriate.

Table 7-1 Proposed changes to Output measures and performance indicators

Activity	Current indicator / measure	Issues	Proposed revised indicator/measure
W08-03 – Compliance Management	Publish on the NRAR website compliance activity by water sharing plan on a monthly basis including observed levels of compliance and non-compliance	NRAR has published compliance by Water Sharing Plan by month on its website in the past but this often results in very low or zero non-compliance figures. NRAR is currently shifting towards quarterly reporting of these figures. Therefore NRAR suggests that it reports on this performance indicator quarterly to result in more meaningful figures being reported. In addition, while NRAR can report on observed levels of non-compliance it is problematic to report on levels of compliance.	“Publish on the NRAR website compliance activity by water sharing plan on a quarterly basis including observed levels of non-compliance”
W10-01 – Customer Management	Enquiries responded to within 24 hours = 90%	The performance measures suggests that NRAR is responding to both emails and calls. However, NRAR only responds to emails. Therefore the indicator should reflect email response only.	Emails responded to within 24 hours 90%

DPIE advised that the performance indicator against Output Measure OM23 in the Draft Determination for “Environmental Water Register available online with a currency of 1 week” was not appropriate for this measure. We recommend that this performance indicator should be removed from the output measures framework. OM23 would then be assessed as complete or incomplete in each year.

We recommended that for WaterNSW’s W10-01 Customer Management activities that a performance indicator for performance against the “Skyline” composite measure be included and proposed a target for WaterNSW to achieve. The separate review of WaterNSW’s expenditure for its Rural Valleys business and its corporate expenditure recommended a different target. We have considered WaterNSW’s response to the Draft Determination as well as the response in the report Expenditure review of WaterNSW Rural Bulk Water Services and Corporate Cost Allocation Supplementary Report (Atkins, version 2.0 May 2021) and agree with the position in the Atkins supplementary report that this target should be set as a “stretch” target to challenge WaterNSW to achieve improved performance. We therefore support the position in the Atkins Supplementary Report that the target for this performance indicator by set at 68% for the WAMC Determination, noting that a single, consistent target for all of WaterNSW’s customers is likely more practical to measure and report.