

Our ref: BN23/822

Carmel Donnelly, PSM
Chair, Independent Pricing and Regulatory Tribunal

20 February 2023

Subject: IPART Draft Handbook - Water Regulation

Dear Ms Donnelly,

Thank you for the opportunity to comment on IPART's Draft Handbook - Water Regulation. The Department of Planning and Environment - Water (DPE Water) and the Natural Resources Access Regulator (NRAR) welcome development of this guidance on how IPART will apply the new regulatory framework for the NSW water sector.

We have considered the handbook and ask that IPART provide additional information on four key areas, to ensure that the WAMC pricing proposal properly addresses the requirements of the regulatory framework for the next price review.

Firstly, we seek additional guidance on IPART's process for applying the new framework, in particular:

- more information on how IPART plans to objectively assess the quality of pricing proposals. This would help us meet IPART's expectation that regulated businesses put forward their best proposal and provide assurance that IPART will consistently apply its framework and assess proposals on their merits. Specifically, we are seeking more detail on the treatment of focus principles relative to the broader set of principles, and more detail on the assessment criteria for advanced and leading proposals would be helpful.
- the handbook discusses the potential for IPART to undertake a systems and process review prior to a price review. It would be useful if IPART included timeframes and triggers for this type of review, so that they are not unexpected or occur too close to a price review to address issues that arise.

Secondly, the purpose and benefits of regulated businesses engaging with IPART early is unclear. We seek further detail on the benefits of early engagement for businesses and how it will factor into IPART's assessment of proposals and efficiency improvements. It would also be useful to understand what type of information IPART will be able to share during early engagement, and what commitments, if any, IPART can provide.

Thirdly, the handbook indicates that efficiency gains are required but it implicitly assumes efficiency gains are reduced costs rather than increased outputs or improved service levels. It would be beneficial if IPART provided commentary and guidance around how different types of efficiencies will be assessed as part of a price review. It would also be helpful if the handbook could address both input and output efficiency along with the impact service level and process improvements have on efficiency.

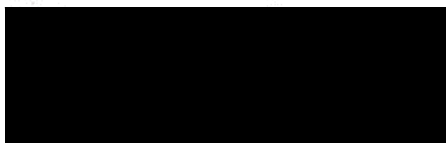
Finally, WAMC is significantly different from the other utilities that IPART regulates. We note that IPART has provided very little WAMC-specific guidance in the draft handbook, specifically around defining WAMC's diverse customer base, which includes the broader community who benefit from and pay for water management services through their taxes.

While IPART has broadened the definition of customer to include non-paying customers, this is still defined in terms of metropolitan utilities. This does not readily apply to WAMC customers who are both regulated individuals and the broader community who benefit from water resource management. We would appreciate some additional guidance around IPART's expectations for defining and engaging with WAMC's diverse customers.

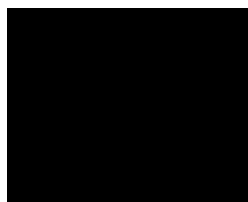
In particular, NRAR was established to be an independent regulator, free from political and individual water user influence. NRAR risks regulatory capture, or broader community perceptions of regulatory capture, if it were to establish its IPART proposal primarily on water user feedback.

Please contact Kate Drinkwater, Director Economics Advisory at [REDACTED], if you need more information or would like to discuss these matters further.

Yours sincerely,



Amanda Jones
Acting Chief Executive Officer, NSW Water Sector



Grant Barnes
Chief Regulatory Officer, NRAR