

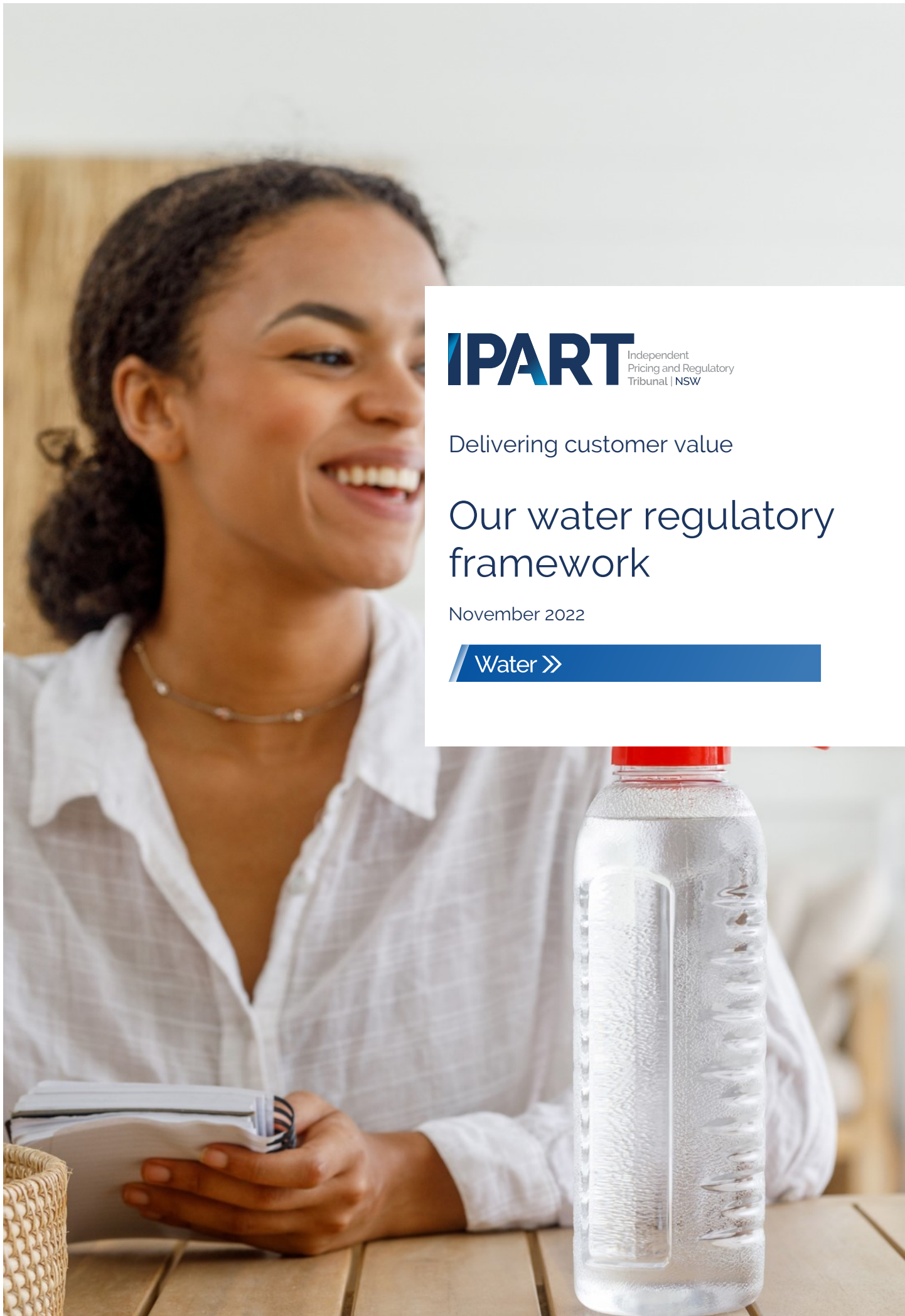


Delivering customer value

Our water regulatory framework

November 2022

Water >>



Tribunal Members

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The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from [IPART's website](#).

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

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Message from the Chair

The people of NSW need good water services. We can't do without reliable, safe drinking water and good wastewater and sewerage services and, in general, we have no choice about who provides us with water services.

Given this lack of choice, NSW laws give IPART powers to protect consumers by regulating the licences and prices for several of the largest water businesses in NSW. IPART ensures water customers pay only what an efficient water business would need to deliver quality water services.

In consultation with water businesses, government and community stakeholders IPART has redesigned its water pricing framework. In this Final Report IPART sets out a new framework with improvements to how we regulate water businesses. Our aim is to hold water businesses accountable in a way that delivers good short, medium and long-term customer outcomes.

IPART's changes recognise that water businesses and their customers face some significant challenges. The COVID pandemic, climate change, bushfires and floods have reinforced how important it is for water businesses to have resilient, sustainable capability so they can deliver reliable, safe water services during tough times. Good long-term plans, innovation and prudent investment will ensure water and wastewater services are resilient to drought and natural disasters, protect the environment, reduce greenhouse emissions and make cities more liveable. Water businesses also need to respond to changes in population and evolving customer and community expectations.

While IPART will continue to protect consumers from unjustified prices for water services, in this challenging context we do not want to see short-term thinking and cost cutting that would only lead to higher prices or poor water services in future. Our new regulatory tools will encourage prudent investment in infrastructure and new technologies so water businesses can deliver better long-term customer value.

IPART's new regulatory approach will more strongly and clearly require water authorities to bring customers into decision-making about the design of services and setting of priorities. Customers can expect that water businesses will communicate and consult with them directly and listen and respond to their views.

IPART's regulatory approach will reinforce NSW Government water strategies by holding water authorities accountable to plan and deliver short, medium and long-term customer outcomes, efficiently.

IPART intends that water authorities will make those plans visible to IPART and the public as part of pricing reviews. This will strengthen regulation of prices so neither the customers of today, or future generations, are asked to pay more than their fair share to fund new infrastructure or technology.

We thank the water businesses and other stakeholders for their involvement and feedback in working with us to develop a framework to help future proof NSW's water sector.

1 Executive summary

Safe, reliable and affordable water is critical to our communities, our environment, and our economy. Water must be managed sustainably as our population grows and we face increasing challenges from climate change. The NSW Government has developed long-term water strategies, aimed at delivering sustainable and resilient water services over the long term.

IPART regulates the prices and performance of several NSW monopoly water businesses. We have reviewed how we do this to better support water businesses deliver water services that are sustainable, efficient, and meet customer and community expectations.

We are implementing a new framework that supports water businesses investing prudently in the infrastructure and technology needed for the future and providing services that their customers value and can afford. It does so by:

- broadening our focus from cost efficiency to customer value
- enabling businesses to promote customer value with a flexible approach driven by the business's proposal
- providing incentives to promote customer value, which encourage businesses to earn autonomy by demonstrating accountability for delivering better customer outcomes.

IPART will continue to regulate monopoly water businesses in line with our role under NSW legislation.¹ In fulfilling this role, we are applying more refined tools – similar to those successfully adopted by regulators elsewhere in Australia and overseas – to implement a more customer centric framework. It has been designed to support NSW water businesses to deliver the NSW Government's water strategies and meet the future needs of customers as technology and preferences evolve.

Involving customers

to set the priorities and outcomes is essential to identify better ways of delivering services.



1.1 A framework focusing on customer value

We have developed a framework and guiding principles centred around customer value. These enable water businesses to focus on efficiently providing services that their customers value. We do not want price regulation to drive a culture of cost cutting and short-term thinking, particularly if this leads to higher costs and prices, or poor water services in the future.

Our framework focuses on customers, costs and credibility – which we refer to as the “3Cs”. We have developed 12 guiding principles (see **Figure 1**).

To apply these guiding principles, each business will actively involve and engage with its customers to develop a set of outcomes aligned to their preferences. Involving customers to set the priorities and outcomes that matter most is essential if water businesses are to identify better ways of delivering services. Therefore, we are shifting our expectations of customer engagement: rather than engaging to ‘tick a box’, each business should be able to gain insights from customers through a variety of methods as standard practice.

Figure 1 The 3Cs framework and guiding principles



1.2 A flexible, proposal driven approach

All water businesses will be expected to understand their customers' preferences in developing their pricing proposal to meet a 'Standard' assessment. While proposals will not be required to go above a 'Standard' assessment, our proposed framework is designed to motivate water businesses to develop 'Advanced' and 'Leading' proposals.

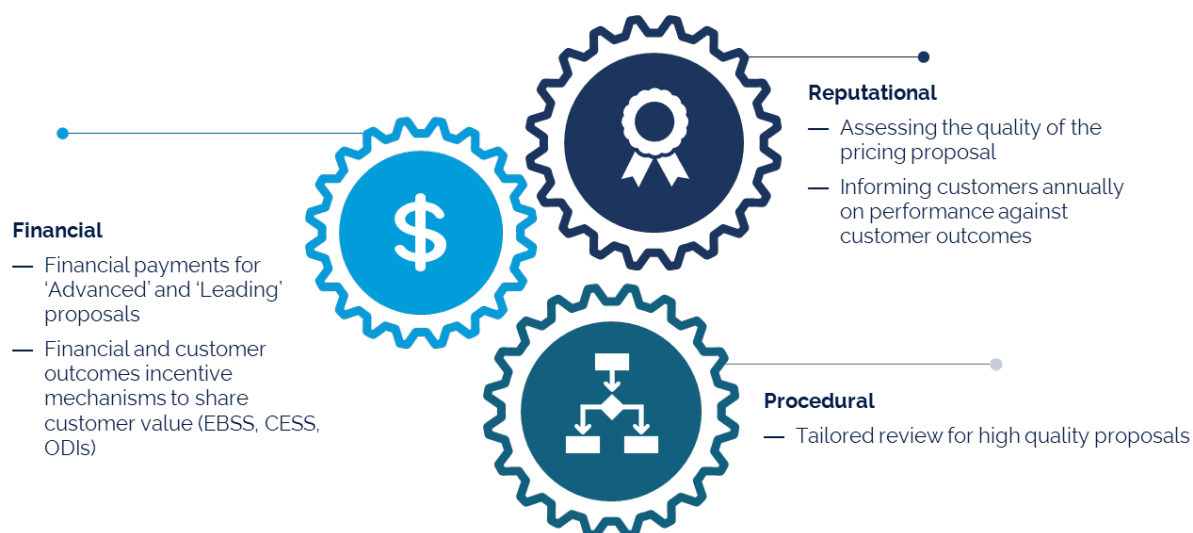
Water businesses have told us that our current one-size-fits-all approach to setting prices is not outcomes-focused and limits their ability to identify and deliver customer value. Our new approach is flexible. It recognises that businesses differ in size, maturity, the services they provide, the environments in which they operate and their customers' expectations. The new approach will allow IPART to support water businesses to identify and deliver customer value, while maintaining a base level of expectations and scrutiny of water businesses' pricing proposals.

Each business will self-assess its proposal as either 'Standard', 'Advanced' or 'Leading' against the 3Cs framework and guiding principles, reflecting the value being delivered to customers. IPART will confirm whether the pricing proposal promotes long-term interest of customers at a 'Standard', 'Advanced', 'Leading' level, using the same criteria. We will require a business that submits a 'Sub-Standard' proposal to submit a revised proposal that will deliver better customer outcomes.

1.3 Enhanced incentives to promote customer value

Our framework includes a range of incentives aligned to customer value. Through our assessment process, we provide procedural, reputational and financial rewards for high-quality pricing proposals (**Figure 2**).

Figure 2 Incentives that promote customer value



Note: The financial incentive mechanisms are explained in the accompanying Technical Paper and Information Paper.

Our monitoring, reporting and accountability framework motivates businesses to deliver and promote customer value. The use of financial and customer outcome incentive mechanisms within this framework allows businesses that demonstrate a strong understanding of their customers to share value created from sustained improvements in performance and reduced costs.

Similarly, these incentives hold businesses to account and penalise those that do not meet their commitments.

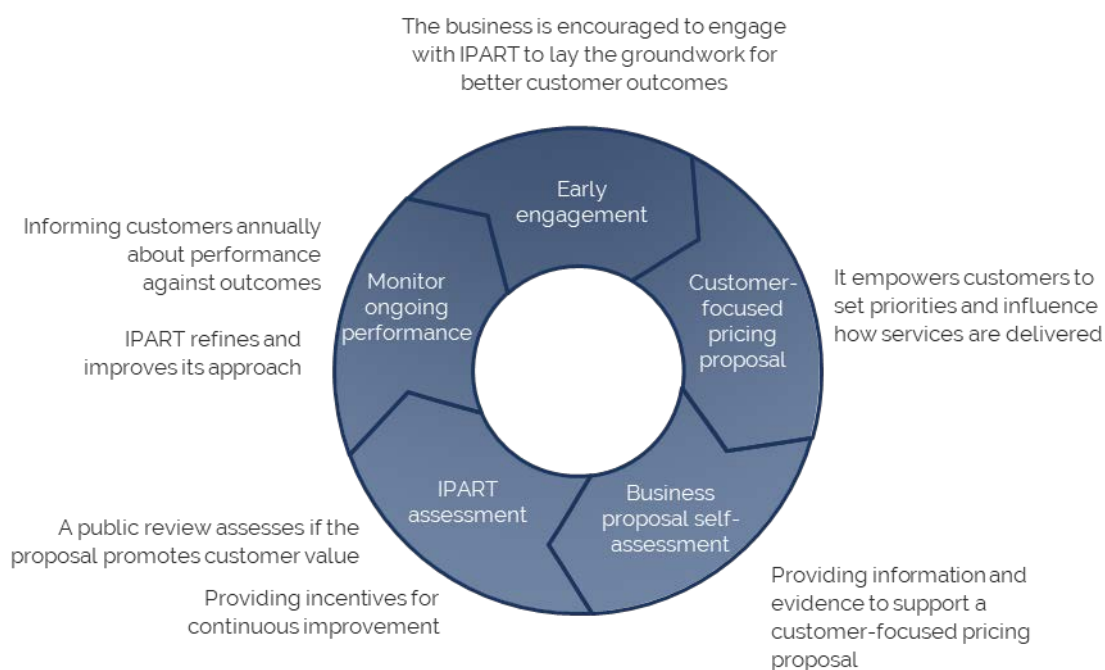
1.4 Business proposals drive how we employ our regulatory tools

Our framework asks each water business to submit a proposal every five years, that demonstrates it is promoting customer value. **Figure 3** shows how it improves on our current approach:

- with a focus on delivering better customer outcomes

- by providing an opportunity for each business to engage with IPART before submitting a pricing proposal to support high-quality proposals
- with an assessment process that reflects the value proposition presented
- by holding each business accountable for their commitments.

Figure 3 The 5-year cycle of engagement and price setting



We are maintaining some core elements of our current approach. We will continue to apply a building block approach, but it will be streamlined and simplified. For example, by reducing the number of asset categories, businesses can smooth price changes between periods where it is in customers' long-term interests. By implementing financial and customer outcomes incentive schemes, IPART can place less reliance on expenditure reviews by consultants. We explain these changes in our accompanying Technical Paper and additional Information Paper on incentive schemes.

Our framework provides businesses with clearer tools to manage uncertain and unforeseen costs. We are also working to establish a Regulators Advisory Panel (RAP) to promote better collaboration between all the water sectors regulators – NSW Health, the Environment Protection Authority (EPA), and IPART, with scope for other regulators, the Department of Planning, NSW Treasury and customer advocacy groups to participate as guest members.

1.5 A tailored approach to price regulation

We will assess and tailor our approach based on the quality of the business's proposal.^a While our approach for Standard proposals remains similar to IPART's existing approach, the 3Cs principles provide an opportunity to streamline processes by allowing a Standard proposal to show that it meets customers' expectations.

Businesses that submit an Advanced or Leading proposal, which demonstrate they are delivering customer value through strong outcome commitments, will earn greater autonomy and flexibility, and less rigid regulatory processes. This provides confidence for the business to promise and deliver more for their customers, shifting the focus from short-term costs to long-term customer value. It also provides a more flexible approach that adapts to each business's distinct customer base.

The differences in our approach are reflected in **Table 1**. For instance, Advanced and Leading proposals can expect a stronger focus on outcomes and scope to provide differentiated service offerings for customers, while Standard proposals should expect to have a higher level of regulatory scrutiny over internal processes and maximum prices set for all customers.

Table 1 Our 3Cs framework tiers regulation based on a business's proposal

Standard proposals	Advanced/Leading proposals
<ul style="list-style-type: none"> • Scrutiny of internal processes and proposed expenditure 	<ul style="list-style-type: none"> • A focus on outcomes rather than internal processes
<ul style="list-style-type: none"> • An expectation for pre-review engagement with IPART 	<ul style="list-style-type: none"> • Optional pre-review engagement with IPART

Changes to the regime for all businesses

- A stronger focus on customer outcomes
- Self-assessment of proposals against IPART's 3Cs criteria
- IPART assessment of proposals as either Standard, Advanced or Leading
- Options for different price structures (e.g. weighted average price structure)
- Financial flexibility to deliver customer value through incentive schemes
- Scope for differentiated pricing for specific customers
- Better collaboration between water sector regulators by establishing a Regulators Advisory Panel
- 5-year determination periods to promote better long-term planning

^a When determining maximum prices, there are certain things that IPART must do. For example, IPART must consider all the matters specified in section 15 of the IPART Act and must hold at least one public hearing. IPART will always fulfil these legal obligations. This Final Report sets out our intended framework for regulating water businesses consistent with the current legislative framework; however, we will always consider the individual circumstances of each business when determining prices. This means that we may depart from our intended approach if we consider it appropriate in the circumstances. We expect this to be rare and to happen only in exceptional circumstances.

1.6 Ongoing monitoring of performance

Over time, IPART will focus on demonstrated performance against credible outcomes. We are asking each business to propose the most effective means of communicating to customers on its annual progress against customer outcomes. In responding to financial and service performance incentive mechanisms, the business demonstrates that it is promoting customer value over time.

In turn, we commit to reviewing the 3Cs framework after the first round of price reviews, to consider the performance of the framework itself. As part of this, we will consult again on any enhancements we could make to the framework.

1.7 Designing and refining our framework

In late 2020, we commenced a review of our water pricing regulatory framework, releasing a position paper for comment. Since this time we released a series of discussion papers and held workshops, each with a particular focus to develop elements of the framework. In May 2022, we released a Draft Report presenting the draft 3Cs framework.

We have received feedback through a range of channels. The response to the 3Cs framework has been largely positive, with stakeholders agreeing it represents a significant shift towards a more customer-focused regulatory structure. However, stakeholders also provided specific feedback that we used to refine and strengthen the 3Cs framework. Full details about what we have changed can be found in the accompanying Technical Paper, but in response to feedback the key changes we have made to the framework since the draft stage are:

- Limiting the financial reward in the assessment tables such that IPART cannot upgrade a business's proposal.
- Delinking access to price controls and financial incentives from the grading assessment, instead assessing each proposal on its merits and case for making customers better off using these tools.
- Allowing temporary carve-outs from the capital expenditure sharing scheme (CESS) for costs that are uncontrollable, while the schemes are new.
- Making minor changes to the modelling simplifications proposed at the draft report stage.
- Clarifications to the customer and community principles including, broadening the definition of a customer, to include users of the service, and including engagement activities within the community principle.

We also considered, but ultimately decided not to introduce a third party independent review for the grading process. Chapter 3 of this report and the accompanying Technical Paper provide more detail about stakeholders' responses to our proposed framework and how this feedback shaped our final decisions.

2 Why did we review the way we set water prices?

Our previous regulatory framework has enabled water businesses to supply safe, reliable and affordable services for NSW water customers. However, customers' expectations are changing and the NSW Government's State Water strategy has highlighted the growing challenges the sector must address. To support water businesses to navigate the challenges ahead and continue to deliver the products and services that maximise long-term customer value, IPART needed to adapt its regulatory framework and approach.

2.1 Our regulatory approach

We regulate in the long-term interests of customers. As our 2023 strategy states, "Our purpose is to make the people of NSW better off through independent decisions and advice."² Water is an essential service, delivered to customers who mostly have no choice in who they buy services from. IPART works to ensure that customers pay fair prices for the water services they receive.

We use two complementary tools to achieve this objective:

- We recommend operating licence conditions,^b and monitor compliance with these conditions, to ensure that water businesses deliver safe and reliable services.
- We provide incentives for the water businesses to operate cost-efficiently, by setting maximum prices for water services.^c

Our water pricing focus has been on providing incentives for water businesses to deliver required service levels at least-cost. To do this, we have undertaken detailed expenditure reviews, allowing us to set affordable water and wastewater prices across NSW.

^b IPART has the function of making recommendations to the Minister for the granting, amendment or cancellation of the operating licence (including conditions) for Sydney Water, Hunter Water and WaterNSW. IPART also has the function of making recommendations to the Minister on whether or not to grant network operator and retail supplier licences to private water utilities including Sydney Desalination Plant. We also administer the compliance and enforcement regime for these operating licences

^c IPART has a standing reference under the IPART Act to determine maximum prices for certain services supplied by Sydney Water, Hunter Water, Water NSW, Central Coast Council Essential Water and the Water Administration Ministerial Corporation. IPART has also been referred the function of determining the pricing of monopoly services supplied by Sydney Desalination Plant under the *Water Industry Competition Act 2006*.

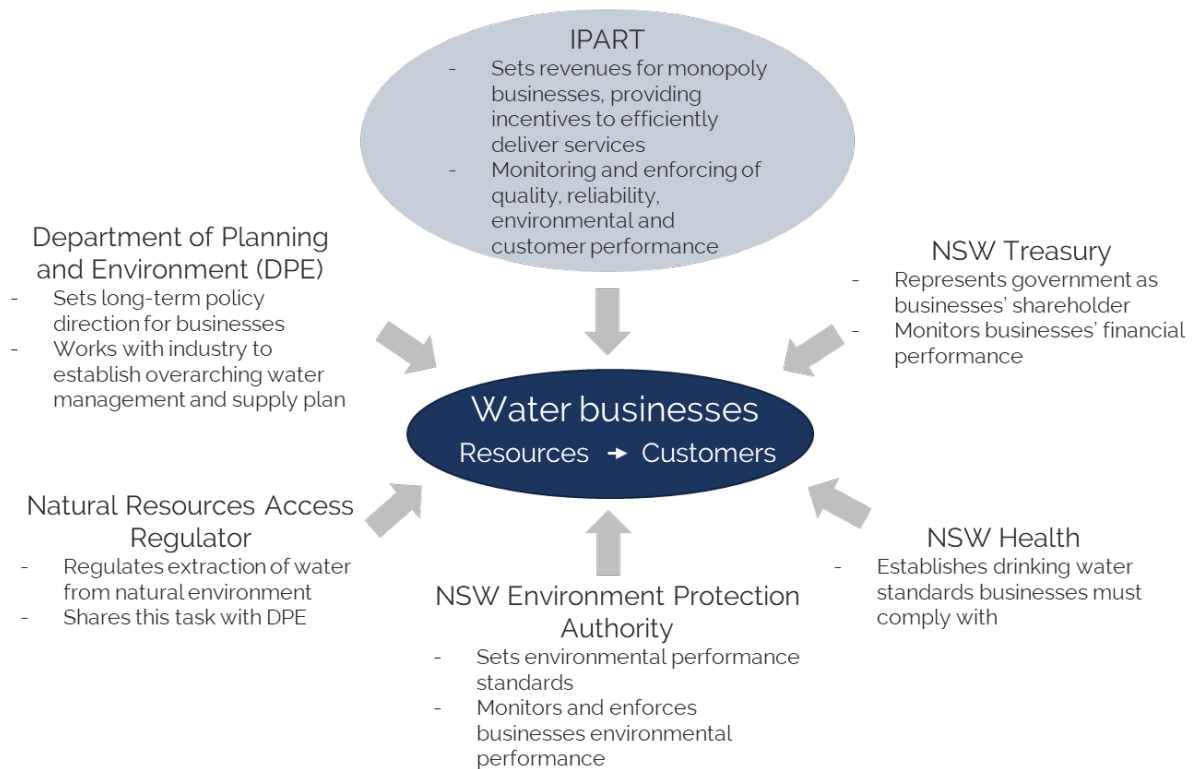
Box 1 The NSW regulatory space for the water industry

IPART is an independent regulator established by the *Independent Pricing and Regulatory Tribunal Act*.³ We make the people of NSW better off through independent decisions and advice. IPART's independence is underpinned by an Act of Parliament.⁴

IPART plays an important role in managing the delivery of safe, affordable water and wastewater services to customers. But the water sector in NSW is complex, and we regulate in conjunction with other government agencies (see **Figure 4** below).

The Department of Planning and Environment (DPE), Natural Resources Access Regulator (NRAR), Environment Protection Authority (EPA) and NSW Health regulate the businesses' performance across environmental and safety metrics. The broader NSW Government (led by DPE) sets the long-term strategic direction for water policy which the businesses work to implement. The NSW Treasurer and the Minister for Finance are shareholders of State Owned Corporations (including many of the water businesses we regulate), so they are responsible for monitoring financial performance and deciding the dividend payments that taxpayers receive.

Figure 4 Agencies that regulate NSW water businesses



2.2 The challenges we face

Our previous approach to setting prices has maintained affordability, but it needed to evolve to support and accelerate the work already underway so that water businesses invest prudently in the infrastructure and technology needed for the future to provide services that customers value.

Water businesses need to have meaningful conversations with customers, to understand their priorities and needs, and to promote the outcomes which best deliver customer value. Customer expectations are becoming more sophisticated and complex. Ongoing and meaningful engagement with customers is the only way to ensure these needs are met, and that services can dynamically respond to changing customer, community and environmental needs.

Our regulatory framework has focused too much on cost and service forecasts over discrete four-year periods. Predominantly focussing on cost efficiency limits the scope for businesses to pursue innovation because they are rewarded by achieving least-cost outcomes in the short term. This can be at the expense of customers' longer-term interests. Pricing regulation should maintain a focus on cost efficiency, while promoting and rewarding innovation that leads to better long-term performance.

We have also heard from businesses that our regulatory processes are time and resource intensive, and overly rigid. There has been too much focus on developing proposals that tick the box on regulatory expectations, and less on maximising the value proposition for customers.

Water businesses should earn autonomy, with less prescriptive price regulation, by providing confidence to the community that they are accountable for efficiently delivering the services that customers want. To support this, we provide incentives that share the benefits of sustained improvements in customer value. These encourage water businesses to directly engage with customers to develop pricing proposals that promote customer value, and to ultimately deliver better services over time.

There is strong recent precedent for moving to a more customer centric regulatory framework. Reforms in Victoria under the PREMO framework for water pricing saw a stronger focus on customer engagement and delivering customer outcomes, coupled with a continued focus on cost efficiency.⁵ Similar reforms have also been delivered in the UK's energy and water sectors. We have an opportunity to build on the most successful elements of approaches in other jurisdictions to achieve similar outcomes in NSW.

2.3 Our vision

Our vision is that our pricing regulatory framework creates an environment where customers have the level of influence they desire, over the issues that matter most to them. Regular, ongoing conversations with customers allow businesses to respond dynamically to their needs and ensure that their expectations are being met. As a result, businesses are led to prioritise prudent investments in the infrastructure and technology needed for the future.

By demonstrating continued value creation through strong proposals and by delivering on customer commitments, businesses will operate with less regulatory burden. We will tailor our role to best support these outcomes, and provide guidance, support and assessment processes that businesses need to succeed.

The regulatory framework supports each business to improve on its performance year-on-year. It incentivises innovation in products, services and prices, supporting continuous improvement in longer term performance across the sector. Efficiency will be achieved through a continued focus on cost, resource allocation and longer-term sustainability.

Our framework will adapt to emergent and future challenges, as we continually refine and improve our approach to reflect better ways of delivering customer value over the long term.

3 Feedback on our draft framework

This Final Report is the culmination of over two years of engagement with the water industry. In late 2020 we commenced this review with a position paper outlining the outcomes and focus areas for the review. Since that time we have hosted workshops and published working papers with ideas for strengthening our regulatory framework.

We also published a draft report and held a public hearing to obtain written and other feedback on our proposed framework.

The regulated water businesses in NSW, as well as other key stakeholders have been actively involved throughout the process. This approach has undoubtedly resulted in a higher quality framework than could have been achieved without their involvement.

Table 2 below summarises the key steps in the process we followed to arrive at this 3Cs framework.

Table 2 Our engagement through this review

Date	Activity	Description
September 2020	Position paper	Sought feedback on the scope of the review and IPART's proposed areas for the review.
November 2020	Review update	Summarised feedback we received on our preliminary positions, which helped confirm the approach for the review.
March 2021	Lifting performance workshop	Met with water businesses, government and customer groups to discuss specific ideas on how to lift performance.
May 2021	Discussion Paper 1	Outlined preliminary views on lifting performance in the sector.
June 2021	Customer focus workshop	Met with stakeholders to work through limitations of the current approach to customer engagement and ways to make customers at the heart of the new framework.
June 2021	Discussion Paper 2	Outlined proposed improvements to promote a customer focus.
June 2021	Innovation workshop	Met with stakeholders to discuss how to promote innovation and sustained improvements in the efficiency across the sector.
August 2021	Discussion Paper 3	Outlined proposed improvements to encourage innovation.
September 2021	Draft framework workshop	Met with stakeholders to discuss businesses' feedback on the proposed framework.
May 2022	Draft Report	Released the Draft Report and Draft Technical Report and sought feedback on the draft framework and guiding principles.
July 2022	Public hearing	Public hearing on the draft new water regulatory framework.
July-August 2022	Series of implementation workshops	5 separate workshops with the sector, each a deep dive into an element of the framework they had requested further collaboration on. Topics included: customer outcomes, modelling simplifications, proposal grading and financial incentive schemes.
October 2022	'Closing the loop workshops' with water businesses	Provided feedback to each business on how their feedback has influenced tweaks to the final 3Cs framework and briefed them on what to expect in the Final Report.
November 2022	Final Report	This package, made up of the Final Report, Technical Paper and Incentives Information Paper.

3.1 Stakeholder response to our proposed framework

Over the past two years, we have heard from water businesses, industry organisations, government agencies and advocacy groups about their priorities for a new regulatory framework. Key themes that emerged include:

- Pricing reviews should consider customer views – an issue that emerged from across the sector but particularly from Sydney Water, Hunter Water and the Energy and Water Ombudsman NSW (EWON).
- Health, reliability and environmental standards should remain a focus – this came through from numerous government agencies, as well as the Public Interest Advocacy Centre (PIAC).
- We should incentivise long-term efficiency – Sydney Water in particular considered that a longer term focus was needed.
- The framework should be flexible and cope with different circumstances – this was a key issue for some of the smaller water businesses such as Essential Water and the Sydney Desalination Plant (SDP).
- Businesses need autonomy to deliver outcomes instead of projects – the Central Coast Council, WaterNSW and Water Services Association of Australia (WSAA) all noted this as a concern.

We used these priorities to construct the 3Cs framework: a regulatory model that puts customer preferences at the centre of business and regulator processes, and provides flexibility and earned autonomy over the short and long-term to businesses that demonstrate they are delivering customer value, while still keeping them accountable for delivering on their performance standards.

We have received strong support from all stakeholders about the intent behind this framework as we have developed it over the past two years. The industry expressed support for regulation to be customer centric and focused on customer value, and considers it will deliver benefits for customers over time. The industry also sees value in the broadening of regulatory focus beyond short-term cost efficiency, and considers this will help to drive cultural change in the industry to the benefit of customers.

More detail on the feedback we received on the draft framework can be found in the accompanying Technical Paper.

3.2 Refinements to the framework since the Draft Report

In May 2022 we released our Draft Report which presented the draft 3Cs framework. The response to the 3Cs framework has been largely positive. Stakeholders agreed it represents a significant shift towards a more customer-focused regulatory structure, however, we also received specific feedback on a range of topics that allowed us to refine and strengthen the 3Cs framework. Full details about what we have changed can be found in the accompanying Technical Paper, but in summary our key changes to the framework since the draft stage are:

- **Limiting the financial reward in the assessment tables.** Some stakeholders considered that allowing IPART to upgrade a business's proposal beyond its self-assessment undermines the incentive for the business to put forward its best offer, and that the resulting financial reward that accompanies such an upgrade could negatively impact customers through unexpectedly high bills. We agree and have removed IPART's ability to assess a proposal as higher than a business's self-assessment.
- **Delinked price controls from the grading assessment.** Many water businesses consider that access to different forms of price control (other than price caps) should be available to all businesses rather than restricted to Advanced/Leading proposals. They argue that there is no strong link between a business's sophistication and the form of prices that best serve its customers. We agree with this argument and have amended the framework so that all businesses can propose their preferred form of price control and we will consider each proposal's case based on the long-term impacts for customers (keeping price caps as a default).
- **Delinked financial incentives from the grading assessment.** As with price control, many stakeholders argue that access to financial incentives should not be tied to a proposal's grade. Instead, they should be determined based on whether the use of schemes would benefit customers on a case-by-case basis. Some also argued that restricting businesses that earn a Standard grade from using the incentives will make it harder for them to earn a higher grade next time. We have removed the restriction that prevents Standard proposals using financial incentives but will require businesses to clearly demonstrate they have the systems in place to correctly manage the schemes for the good of their customers.
- **Allowed temporary carve-outs from the CESS.** Most water businesses are broadly supportive of the use of financial incentive schemes, but many are concerned there is not enough time to implement them successfully before the next price review, and that some capital expenditure is not forecastable and so should be excluded from the CESS. We understand the businesses' concerns, so have agreed to allow carve-outs from the CESS so that costs that are uncontrollable can be excluded from the scheme while the schemes are new. We will also work closely with the industry to implement the schemes so they run smoothly.
- **Made minor modelling simplifications.** In the Draft Report we put forward a range of potential changes to our modelling systems, and following useful feedback from the industry we have decided to implement a range of minor changes. Details of these can be found in the accompanying Technical Paper.
- **We have made clarifications to the customer engagement and community principles.** We have broadened the definition of a customer to include direct bill payers and other users of the water service. We have also included community engagement in the 'Community' principle when preparing a proposal.

- **We also considered but ultimately decided not to introduce an independent review for the grading process.** Sydney Water submitted that IPART's grading process will be inherently subjective, and that introducing an independent review mechanism for instances where a business disagrees with our grading assessment would be prudent. This suggestion was not raised by other businesses, and was opposed by some other stakeholders. We have decided not to introduce an independent review mechanism because IPART is an independent agency with specific regulatory functions as defined by legislation. The Tribunal is transparent in its decision making, is required to conduct public consultation with stakeholders and is already subject to judicial reviews for errors of law. Further the recommendations of a third party would not be binding on IPART.

As such, we did not consider there was sufficient benefit for a third party review for the additional complexity and review time.

4 Delivering customer value with a new pricing framework

Our new pricing framework is designed to promote a genuine shift to customers influencing the way businesses deliver services and the way that we regulate.

It encourages water businesses to engage directly with customers to drive its long-term priorities. Under the framework, a water business' pricing proposal should demonstrate that its activities and expenditures promote customer value.

IPART's water pricing review becomes much more about ensuring businesses are reflecting customers' preferences and are held accountable for delivering on customer priorities.

The key components of our new pricing framework are:

- focusing on customer value
- moving to a flexible proposal driven approach
- harnessing incentives to deliver customer value
- businesses' proposals driving our reviews and how we employ our regulatory tools
- ongoing monitoring of performance.

This chapter outlines the new pricing framework and how it will work.

4.1 Focusing on customer value

We have designed our pricing framework so that a business delivering better customer value would excel across three pillars:

- **Customers** – Businesses are focused on identifying and delivering customer outcomes, including broader community and environmental outcomes.
- **Costs** – Businesses demonstrate they are delivering these outcomes efficiently and sustainably.
- **Credibility** – Businesses are accountable for delivering on the outcomes that customers want. Pricing proposals contain concrete strategies for monitoring progress and adjusting as needed to ensure plans and outcomes are achieved.

Each of these pillars is supported by guiding principles, which set out how water businesses can demonstrate that its proposals can support and contribute to the long-term interests of customers.

4.2 Our '3C' guiding principles

We have developed 12 guiding principles that businesses should use to develop and assess pricing proposals, and that we will also use to assess them. For each principle, there are different performance expectations depending on whether the proposal is assessed as Standard, Advanced or Leading.

For example, all proposals need to include a customer engagement strategy that sets out how customers are consulted on business plans, while Advanced proposals also show that customers had significant influence and that the consultation methods used were best practice. This is not a new feature for many of the businesses, for instance some businesses already have specific customer engagement requirements in their operating licences. However, the 3Cs framework encourages each business to build on what it already has in place and allows for more recognition of this work within the pricing proposal process.

We have intentionally not been prescriptive when it comes to forms of engagement. Rather, the 3Cs framework allows each business to choose the strategy most appropriate for its circumstances and customers. We expect water businesses to make it easier for all segments of their customer base and community to engage with them, and strive for improvements in engaging hard to reach customers. They should improve processes to identify needs of customers experiencing vulnerability, traditional owners of land and waters, and culturally and linguistically diverse customers (for example).

The principles are designed to provide water businesses with guidance on our regulatory expectations. Each business can assess how its performance compares against these expectations. Providing this guidance within our proposed framework enables water businesses to design their **own** customer centric pricing proposals and engagement strategy.

This recognises that, perhaps more so than in other jurisdictions, the NSW water businesses we regulate differ in their size, maturity, the services they provide, the environment they operate in, and their customers' expectations. Our guiding principles allow our framework to be tailored to account for each business's functions, customer preferences, operating context and circumstances. And they allow our assessment of pricing proposals to be proportionate to how well the business demonstrates it is promoting customer value.

The 12 principles are summarised in **Table 3**, and the accompanying Technical Paper provides more detail about our expectations for each principle, and at each level.

Table 3 The 3Cs guiding principles

Customer principles

Customer centricity	How well have you integrated customers' preferences into the planning and delivery of services, over the short and long term?
Customer engagement	Are you engaging customers on what is most important to them, and using effective methods, to add value?
Customer outcomes	How well does your pricing proposal link customer preferences to proposed outcomes, service levels and projects?
Community	Are you engaging with and considering the broader community and its objectives, including traditional custodians of the land and water, while ensuring services are cost-reflective and affordable today and in the future?
Environment	Are you delivering environmental objectives, including to address climate change, in a cost-efficient manner across the short and long term?
Choice of services	Are you providing opportunities to reflect customers' varied preferences for the tariffs and additional services they are willing to pay for?

Cost principles

Robust costs	How well does your proposal provide quantitative evidence that you will deliver the outcomes preferred by customers at the lowest sustainable cost?
Balance risk and long-term performance	How well do you weigh up the benefits and risks to customers of investment decisions, and how consistent are they with delivering long-term asset and service performance?
Commitment to improve value	How much ambition do you show in your cost efficiency targets and what steps have you taken to demonstrate commitment to deliver on your promises?
Equitable and efficient cost recovery	Are your proposed tariffs efficient and equitable and do they appropriately share risks between the business and your customers?

Credibility principles

Delivering	Can you provide assurance that you have the capability and commitment to deliver?
Continual improvement	Does the proposal identify shortcomings and areas for future improvement?

4.3 Harnessing incentives to deliver value to customers

We will continue to hold water businesses accountable for being efficient and delivering value for money. Under our new pricing framework we are adopting tools similar to those used by regulators elsewhere in Australia and overseas, to provide businesses with balanced incentives to support improved performance and service delivery. Our incentives are set out below.

Reputational incentives

Requiring businesses to self-assess their proposals before IPART conducts its own assessment provides a reputational incentive to put forward pricing proposals that deliver on customer preferences.

Where we agree with a business that it has provided an Advanced or Leading proposal, customers can be confident that their water business is delivering customer value.

Process incentives

We are tailoring our regulatory approach depending on our assessment of a water business's pricing proposal. We will tailor expenditure reviews, the form of price control and level of pricing flexibility. Pricing proposals that demonstrate improved performance and a program that efficiently delivers the services that a business's customers prefer can expect a more streamlined price review. This incentive should strengthen over time as we repeat the review process and businesses learn more about how best to demonstrate performance achievements within the 3Cs framework.

Financial incentives

Where we agree with a business that its proposal is Advanced or Leading, we will allow the business to share in the customer value created through an up-front financial reward. This payment (of up to 2.5% of the business's annual revenue requirement) provides the business with additional financial headroom to support it in delivering innovative/ambitious proposals.

For financial incentives, each business is considered 'Standard' until its first price review under the 3Cs framework. Following this, the rating from the last review will be the starting point for the next review.

Table 4 and **Table 5** below show the proposed payments. For instance, a business with a previously Standard proposal that self-assesses its new proposal as Advanced can earn an additional 1.25% of its annual revenue requirement up-front if IPART agrees the proposal is Advanced.

Table 4 Assessment table for a business previously assessed as having a Standard proposal (% of annual revenue requirement)

IPART's assessment	Business's self-assessment		
	Leading	Advanced	Standard
Leading	2.5%	n/a	n/a
Advanced	1%	1.25%	n/a
Standard	-1%	-0.5%	0%

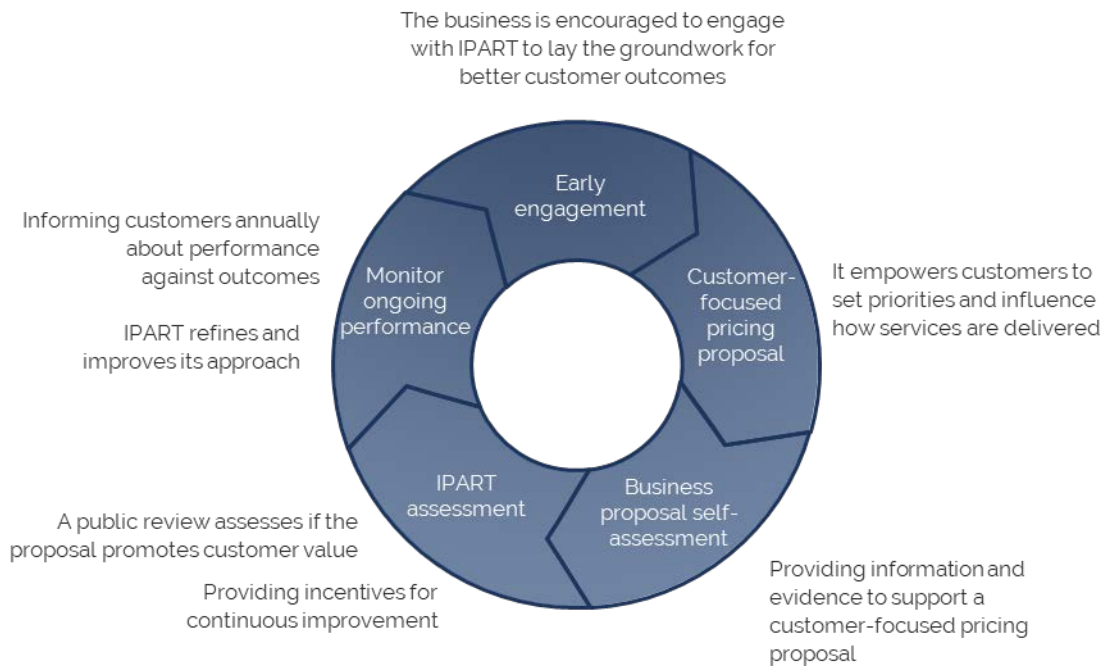
Table 5 Assessment table for a business previously assessed as having an Advanced/Leading proposal (% of annual revenue requirement)

IPART's assessment	Business's self-assessment		
	Leading	Advanced	Standard
Leading	1.25%	n/a	n/a
Advanced	-0.25%	0%	n/a
Standard	-2.25%	-1.75%	-1.25%

4.4 Businesses proposals drive our reviews and how we employ our regulatory tools

Figure 5 provides guidance on how we will apply the framework across a regulatory cycle – from planning and early engagement, through developing a pricing proposal and regulatory review, to ongoing monitoring.

Figure 5 The 5-year cycle of engagement and price setting



Early engagement: 12-24 months ahead of a business submitting its price proposal

Our pricing framework offers early engagement between the business and IPART approximately one to two years before its pricing proposal is due, to support better customer outcomes. This builds on our commitment under the 3Cs framework to encourage businesses to check in with IPART as they develop pricing proposals.

Early engagement provides an opportunity for us to have a structured discussion with water businesses, so that we have a clear understanding of how a proposal will address our 3Cs pricing framework, and how effectively the framework promotes customer outcomes. Businesses can use the feedback from early engagement to refine the development of its proposal and self-assessment, identify potential information gaps and to minimise the chance of surprises, during the price review period.

Developing and self-assessing customer-focused pricing proposals: 12-24 months ahead of a business submitting its price proposal

The businesses will engage with customers to develop pricing proposals ahead of lodging their proposal with IPART. This will involve working with customers to develop long-term plans, identify outcomes for the upcoming determination period, and engaging on associated expenditure priorities. We need water businesses to adapt and ensure water security, resilience and safety as our climate changes. This will require good long-term plans, innovation and prudent investment.

Businesses should be engaging with customers throughout the regulatory cycle. The customer engagement conducted one to two years before a price review should be just one part of this wider, ongoing program. We suggest developing the proposal one to two years ahead of submission as a guide, not a strict rule.

An important aspect of the proposal is to propose and justify the cost efficiencies the business is planning to achieve over the upcoming determination period.

Having developed its pricing proposal, businesses will self-assess against the 3Cs framework and guiding principles (laid out in Table 3). In so doing, businesses will justify that their proposal satisfies the requirements of Standard, Advanced or Leading, overall.

We do not expect all regulated businesses to strive to be Advanced or Leading in the short term. Rather, the framework is tailored to encourage each business to improve on its performance year-on-year, from its own starting point.

Finally, before submitting its pricing proposal, the business will be required to obtain board (or equivalent) approval of the pricing proposal. This is to encourage greater accountability within the businesses, and to ensure boards are involved in developing long-term plans to deliver customer value. A business failing to deliver on its own, board endorsed, proposal will have to provide an appropriate explanation to its shareholder and the community.

IPART's assessment of the pricing proposal: 9 months before IPART makes a pricing determination

We will assess the business's proposal based on the 3Cs framework and guiding principles. In so doing, we will consider each of the principles and evaluate its proposal based on the information and evidence provided in the proposal. Ultimately, we will decide whether we agree with the business's self-assessment. Having considered submissions on our Draft Report⁶, we will not upgrade a proposal's grade, but we may downgrade it. That is, a business will not be assigned a grade higher than its self-assessment. We agree with PIAC⁷ that using the water business grading as a maximum will encourage ambition in water businesses proposals.

In making a determination on a proposal, we will:

- Conduct a streamlined expenditure review process, where there is clear evidence of customer support for expenditure proposals that lie within appropriate benchmarks – see **Box 2**.

- Review the business's proposed customer outcomes and expenditure in deciding the revenue an efficient business would need to deliver water services, meet operating licence conditions and other regulatory or statutory obligations, and promote customer value.
- Determine the prices (or a method the business applies to set prices) for water services to ensure they are cost-reflective and sustainable, promote efficient use of, and investment in, the associated infrastructure.
- Incentives for the business to deliver improved customer service performance outcomes and become more cost-efficient over time.

We have designed the incentive schemes to enable businesses to show that they are responding efficiently to balanced incentives for improved service performance and financial outcomes. This will allow IPART, in subsequent reviews, to place less reliance on expenditure reviews by consultants.

At the end of our pricing review, we will publish a pricing determination, a legal document that sets out maximum prices (or a pricing methodology for setting these prices) for regulated services. It will reflect our assessment of the revenue required to deliver customer value over the determination period, including any sharing of benefits between the business and customers. In making a pricing determination, we will consider all the matters set out in section 15 of the IPART Act.

Box 2 Changing the expenditure review process

Our expenditure review process is an important component of the regulatory framework. However, it has become increasingly onerous and we agree with the water businesses it is delivering less value for customers than it used to.

For this reason, we are implementing changes to the process, to enable both the businesses and IPART to focus on the elements of the expenditure review that matter most to customers:

- adopting a base-step-trend approach to operating expenditure
- streamlining information returns the businesses need to complete
- making greater use of cost benchmarking
- working with the businesses to develop predictive models of longer-term capital expenditure needs
- only reviewing historic capital expenditure by exception
- requiring expenditure review consultants to recommend a range of efficient expenditure
- simplifying our building block model without compromising the quality of outcomes.

These are described in more detail in our Technical Paper.

Ongoing monitoring of performance: full 5-year determination period

After setting prices (or a pricing method), customer outcomes and incentives, we will monitor ongoing performance using a range of tools to make sure businesses deliver on their commitments to customers. These tools, which received support from stakeholders,⁸ include:

- each water business notifying customers of their progress against outcome commitments
- publishing business performance results in an online dashboard
- conducting annual licence audits (including, where applicable, clauses relating to compliance with price determinations)
- collaborating with other regulators through a Regulators Advisory Panel to ensure a consistent regulatory settings for businesses.

We will work with water businesses to establish ongoing information provision to customers about performance. Reporting how businesses perform on customer outcomes can boost accountability and help improve the services available to customers. Public access to this information allows both businesses and customers to compare businesses within an industry. This additional reporting allows businesses to show customers how they are delivering for customers, and is central to the new pricing framework..

While not a new addition to our regulatory framework, conducting annual licence compliance checks is another powerful tool we will use to incentivise businesses to deliver on service performance outcomes. Breaches of an operating licence can result in strong reputational penalties such as fines or even loss of licence.

Finally, we are establishing a Regulators Advisory Panel with other NSW regulatory bodies that also regulate water businesses to address concerns about inconsistent regulatory settings for water businesses. The Panel will meet periodically and aim to align regulatory expectations to deliver on customer value.

5 Benefits from the 3Cs framework

The 3Cs pricing framework encourages a stronger customer voice in how services are delivered. It allows businesses to demonstrate that proposals and decisions are efficient and supported by customers and the broader community. By streamlining the regulatory process and providing incentives that share the benefits of improved performance, the 3Cs framework encourages innovation and a shift in the sector from short-term costs to long-term customer value.

5.1 Enhanced focus on customer value

The key benefit of the 3Cs pricing framework is to accelerate a shift across the sector to delivering customer value.

Water businesses can show they are genuinely led by customers, including those who are difficult to reach such as tenants and those in land lease communities.⁹ Rather than engaging to 'tick a box', each business should be able to gain insights from customers through a variety of methods as standard practice. Involving customers to set the priorities and outcomes that matter most is essential if water businesses are to identify better ways of delivering services.

5.2 Stronger customer voice in decisions

The 3Cs framework asks each water business to provide customers with an increasing level of influence in how services are delivered. Rather than surveying customers on specific engineering solutions or financial parameters, businesses are to demonstrate that decision-making processes at all levels are structured to promote customer outcomes.

This will provide confidence to the business that it is providing a high-quality proposal supported by its customers. By linking reputational and financial rewards to high-quality pricing proposals, we encourage each business to deliver more for their customers.

In turn, IPART has confidence that proposals accurately reflect customer preferences and promote cost efficiency and long-term planning. This supports a more streamlined and efficient regulatory process for all stakeholders.

5.3 Improved performance and cost efficiency outcomes

Working collaboratively with customers, we expect each business to increasingly align its performance outcomes with customer needs. This supports innovation to deliver customer service and outcome commitments at the lowest sustainable cost as technology and preferences evolve.

Financial incentives support a focus on longer-term outcomes. First, they align financial performance to sustained improvements in customer value. Businesses that deliver value for customers (such as improved services, innovative or efficient service delivery) are rewarded by being able to share those benefits with their customers. Second, they allow future review processes to be streamlined because they allow businesses to demonstrate they are acting efficiently (reducing IPART's reliance on expenditure review consultants). This increased autonomy provides more scope for the business to deliver longer-term customer outcomes.

Customers have confidence that we hold businesses accountable over time as demonstrated and credible outcomes become our focus. Pricing reviews will hold water business to account, but reviews should become less intrusive over time as water businesses are increasingly able to demonstrate their annual performance matches promised outcomes.

5.4 Tailored regulatory approach to enable innovation

In applying the 3Cs pricing framework, we will tailor elements of our regulatory process to the scale and sophistication of each pricing proposal. The more advanced a proposal, the more flexibility the regulatory regime provides. Tailoring our approach supports better outcomes for customers:

- It supports the efficient allocation of the businesses' time to key issues that matter most to customers.
- It provides an additional incentive for businesses to submit high-quality proposals so they can earn the flexibility offered to Advanced and Leading assessments.
- By adapting our decisions to the needs of each business, businesses can customise their service offerings for customers.
- The incentives for ongoing efficiencies allow us to streamline future reviews. This is because they provide confidence that a business's historical expenditure is efficient and reliable for setting future prices.

5.5 A framework that evolves to support water businesses to meet the challenges ahead

The 3Cs framework reflects that the businesses we regulate provide different services to disparate customer bases. It is designed to provide flexibility for each business we regulate, based on how well its pricing proposals promote customer value.

Submissions to our Draft Report all supported our proposed review to evolve the framework to ensure it remains fit for purpose into the future. The framework has been designed so that it adapts, and evolves, over time to meet our objective of promoting long-term customer value. As we receive feedback on the framework from water businesses and customers, and take on board lessons from other regulators, we will improve how it is applied to deliver better customer outcomes into the future.

We commit to reviewing our framework for regulating the water sector every five years with a transparent and consultative review process. We anticipate doing so after completing each round of pricing reviews under the new framework.

While we will consult with stakeholders on the focus areas for future framework reviews, we expect to:

- share lessons and improve how customer outcomes are promoted under the framework
- review and update our guiding principles
- identify improvements to the design of financial (and other) incentives in the framework, having had the opportunity to apply these incentives
- identify further opportunities to streamline our process as businesses demonstrate they are delivering customer value.

We will also commission an independent review of our new framework after the first round of pricing reviews.

6 Implementing the new framework

IPART is committed to the successful implementation of the 3Cs framework, and we will work with all stakeholders to secure success. Below we have made commitments about how we will behave when using our framework, and where we need to develop our capabilities. We agree with some submissions that the water businesses will also need to develop their capabilities¹⁰ and recognise that this new framework will mean more work for the sector in the short run to get systems and processes ready for the 3Cs model. We are committed to assisting the businesses where we can to make the most of the new model to deliver value for customers.

6.1 IPART's commitments

Our pricing framework aims to change how businesses interact with customers and how we fulfil our regulatory responsibilities. The framework is designed to:

- support the water industry to deliver better value for money to customers, and be rewarded for it
- be predictable, without presupposing the specific outcomes that customers want
- reward innovation and sustained performance improvement
- avoid unnecessary regulatory intervention.

We want each business to improve on its performance year-on-year and become a leader in the industry. This is what success looks like for IPART under the new framework. To give the industry confidence in how we intend to interact under the new pricing framework, we provide the following commitments in **Table 6** below.

Table 6 IPART's commitments under the framework

Act fairly	<p>While IPART will make decisions at arm's length, we need to support each business for this framework to be successful.</p> <p>We expect water businesses to propose their strongest customer value proposition. Our assessment will reflect the quality of the proposal, not our historical experience with the business.</p>
Openness and transparency	<p>We will maintain an open-door policy during the determination period up to the point of lodging a pricing proposal and encourage businesses to check-in with IPART as they develop pricing proposals. We commit that our early engagement with the water businesses will be informational not decision-making, and we will implement practices to ensure 'regulatory capture' does not occur.</p> <p>We will seek to proactively engage with board directors, executive leadership teams and regulatory teams, to ensure businesses understand the objectives behind this framework and have confidence in its application.</p>
Tailored approach	<p>We will focus on matters that materially impact customer value. We will not conduct line-by-line examinations to try to bring costs down, or downgrade proposals.</p> <p>Businesses will be rewarded for their efforts, rather than penalised for small oversights or errors.</p>
Earned autonomy	<p>We commit to streamline reviews where a business can demonstrate better customer value for money and provide well-justified and transparent plans.</p> <p>High standards of performance will also be rewarded with lower regulatory burden. IPART's focus will be on areas where improvement may be needed. This supports businesses in taking responsibility for customer outcomes over the long-term.</p>
Customer centric	<p>We expect each water business to engage with its customers. We will not unnecessarily pre-suppose what is in the long-term interests of customers. The businesses will agree with its customers how these long-term interests are met.</p> <p>We will hold businesses to account for their commitments and ensure that engagement is genuine and provided all customers (including tenants and landlords) appropriate influence on the outcomes and value for money.</p>
Continuous improvement	<p>We are committed to listening to feedback on the regulatory framework from water businesses and customers, and to continuously improve how it is applied to improve outcomes for customers into the future.</p>

We based these commitments on the strong collaborative momentum we have developed as a sector during the review and development of this framework. Similarly, we expect water businesses will reciprocate when working with IPART to implement and improve the framework into the future. This framework will be most effective if we work together to achieve our common goal to deliver customer value.

6.2 Our next steps for implementation

With the publishing of this Final Report package, we will move from designing the new framework to implementing it. There is a lot of work to be done, both by the businesses and by IPART, in successfully implementing the new framework. We intend to continue to actively engage with the businesses and other stakeholders as we develop the systems needed for the new framework. IPART's next steps towards implementation include:

A commitment to cultural change within IPART

This new framework represents a significant shift in the way IPART regulates the water businesses, and as such our thinking needs to evolve as we review proposals in the future. We have already started building this change, internal workshops about how the new framework will apply and what this means in practice.

We will continue to build on this change, allocating resources specifically to update our internal processes and run staff training in key areas (for instance, customer engagement training) so they are skilled to assess and rate proposals.

Updating our modelling and information requirements for businesses

We are already working to streamline our models (e.g. Annual Information Returns) so they are as simple as possible, and consistent with the new framework. We will also work with the sector in developing predictive capital expenditure modelling and benchmarking of costs for the future.

Creating an online dashboard to showcase ongoing performance

We will work to produce a user-friendly online performance dashboard that tracks each businesses' progress against their outcome commitments. This approach ensures there is greater visibility and accountability about progress and lends itself to comparisons across like businesses.

The online dashboard will be easily accessible to all interested stakeholders. The intent is that it will contain current and past information for all price-regulated businesses on the grades that each business received for current and past pricing proposals, outcome commitment targets and progress against achieving those targets, and trends for operating expenditure and capital expenditure.

Developing the regulation handbook with the sector

Over the past six months we have been holding regular workshops with the sector on key elements of the new framework that require further guidance from IPART. We are developing a regulatory handbook to replace our Water Agency Submission Guidelines. We will continue to consult with stakeholders in developing the handbook. The first version of this document will be made public in the coming months for consultation and we commit to keeping the handbook updated including with examples of best practice over coming years.

Convening the Regulators Advisory Panel

The RAP received significant support through this review, and our next step will be to consult on a charter for the group and begin hosting meetings. We will work with the other members of the RAP (including NSW EPA, NSW Health and NSW DPE) to do this.

Assisting the sector to put together a working group for implementing financial incentives

In recent discussions with water businesses, several have expressed an interest in convening a working group of technical experts from within the businesses to implement the financial incentives schemes. We support this idea and would be happy to attend meetings of this group at the request of the businesses.

Appendices



A List of decisions

Below we have listed our decisions for this review. Our accompanying Technical Paper has more detail on each of these decisions.

Update IPART's pricing framework to promote customers, costs and credibility

1. IPART will update our water pricing framework to better promote customer value, cost efficiency and credibility. These elements are referred to as the 3Cs. They are supported by individual principles that:
 - water businesses will use to guide pricing proposals that promote the long-term interests of customers
 - IPART will use to assess pricing proposals, and as a basis for its decisions, in a pricing review.
2. IPART will continue to engage with the water businesses and other stakeholders to develop a handbook that provides the level and type of guidance required to support water businesses' proposals under the 3Cs framework. It will be updated over time.

Engage early with water businesses to support customer outcomes

3. Water businesses can engage with IPART one to two years before a pricing proposal. Early engagement:
 - aims to ensure water businesses are supported and accountable for developing their pricing proposals, delivering their plans and engaging with their customers.
 - is expected for a water business that previously submitted a Standard proposal, and encouraged if it previously submitted an Advanced or Leading proposal

Enable water businesses to promote customer value through pricing proposals

4. Water businesses will demonstrate how well their pricing proposals promote customer value, encourage cost efficiency and whether they can be credibly delivered, by self-assessing whether their pricing proposals meet the 3Cs framework at a Standard, Advanced, or Leading level.
5. Water businesses will provide information to support self-assessments, including:
 - proposed customer outcomes and performance targets, and as applicable, how these are complemented by operating licence conditions and/or incentive schemes
 - a nominated efficiency factor, that is substantiated with activities to deliver on this commitment
 - supporting evidence that its focus principles are consistent with customer priorities
 - Board (or equivalent) endorsement that the pricing proposal best promotes the long-term interests of its customers

Provide incentives for water businesses to promote customer value and tailor decisions in a pricing review

6. IPART will assess whether we agree with the water business' self-assessment that its proposal meets the 3Cs framework at a Standard, Advanced, or Leading level.
 - IPART will require a water business that submits a sub-standard pricing proposal to resubmit within 6 months.
7. IPART will base financial rewards and penalties on our assessment of the water business' proposal against the 3Cs framework. A financial reward – calculated as a percentage of the revenue requirement used to determine maximum prices – will be allowed where we agree with the water business that its proposal is Advanced or Leading. The maximum grade IPART will award to a proposal is the business' self-assessment.
8. IPART's assessment of the water business' proposal against the 3Cs framework will be used to determine our approach to expenditure reviews and to tailor key decisions in a review.

Encourage ongoing customer value through financial incentives

9. We will allow proposals (irrespective of grading) to include financial and service performance incentive mechanisms. Where the benefits exceed the costs, these proposals will have an incentive regime comprising:

- an operating expenditure benefits sharing scheme (EBSS)
 - a capital expenditure sharing scheme (CESS)
 - a customer outcomes delivery incentive scheme (ODI) for key customer outcomes.
10. IPART will implement a shadow price for leakage to encourage efficient reductions in leakage. This will apply for water businesses who serve retail customers.

Update common elements of the price review process to promote effective and efficient regulation

11. IPART will set 5-year determination periods, and conduct price reviews over 9 months, unless another timeframe is agreed in advance.
12. IPART will update how we assess proposed operating expenditure by:
- implementing a base-step-trend approach
 - streamlining information returns to support greater use of benchmarking.
13. IPART will update how we assess proposed capital expenditure by:
- working with the water businesses to develop predictive models of longer-term capital expenditure needs
 - conducting reviews of historical capital expenditure by exception.
14. IPART will identify a range of efficient expenditure using expenditure review consultants (where applicable).
15. IPART will update our regulatory approach around the 3Cs framework with respect to:
- The criteria IPART will apply to test the prudence and efficiency of proposed expenditure will be included in the 3Cs framework and guiding principles, rather than in separate guidelines.
 - As water businesses will promote the service improvements that their customers want and value by proposing customer outcomes, IPART will not apply a separate discretionary expenditure framework.
 - Our proposed customer choice pricing model promotes differentiated service offerings and broadens the scope for unregulated pricing agreements.
16. IPART will simplify the building block models without affecting the quality of outcomes, as outlined in Appendix A of the Technical Paper.

Provide flexibility to address changing revenue needs where it promotes the long-term interest of customers

17. IPART will provide water businesses with mechanisms to manage changing revenue needs over the short and long-term, where these promote better customer outcomes. The Technical paper outlines the principles which we will consider when assessing proposals:
- to account for uncertain and unforeseen costs within a pricing period with a cost pass-through, ex-post true-up, letter of comfort, or a partial or a full re-opening of a pricing determination
 - to smooth revenues between pricing periods with accelerated depreciation, annuities or escrow accounts.

Increase the importance of ongoing performance monitoring

18. Each water business should publish its performance against customer outcomes annually and communicate this information to customers.
19. IPART will publish and maintain an online performance dashboard on water businesses' performance against customer outcome commitments.
20. IPART will establish a Regulators Advisory Panel to promote better collaboration between regulators of NSW water businesses.
21. IPART will review and update the 3Cs framework every five years. This will include an independent review of the framework, after the first round of reviews under the new framework.

¹ *Independent Pricing and Regulatory Tribunal Act 1992.*

² IPART, *Strategy on a page*

³ *Independent Pricing and Regulatory Tribunal Act 1992 s 5.*

⁴ See e.g., *Independent Pricing and Regulatory Tribunal Act 1992 s 7*

⁵ FarrierSwier, *Victoria's water sector: The PREMO model for economic regulation*, March 2019.

⁶ Submissions that proposed IPART should not be able to upgrade a proposal came from the PIAC (submission to Draft Report p5), Sydney Water (submission to Draft Report p13), Hunter Water (submission to Draft Report p12).

⁷ PIAC submission to Draft Report, p1.

⁸ PIAC submission to the Draft Report, p12; the establishment of a Regulators Advisory Panel received broad support from stakeholders including Sydney Water (submission to Draft Report p67); Hunter Water (submission to Draft Report p4); SDP (submission to Draft Report p12); and EWON (submission to Draft Report p4).

⁹ EWON submission to Draft Report p2.

¹⁰ See for instance, Water NSW submission to Draft Report p11; Sydney Water p39; SDP p4.

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