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31 May 2021

Water Regulatory Review
Independent Pricing and Regulatory Tribunal

Via online submission

Discussion Paper – Lifting the performance in the water sector

Essential Water welcomes the opportunity to provide feedback to the Independent Pricing and Regulatory Tribunal (IPART) on its discussion paper (“the paper”) about how performance in the water sector could be lifted.

While we are part of a large organisation in Essential Energy, Essential Water is a small business providing an essential service to customers in a remote and challenging environment. This imposes real and practical constraints on our business. Any improvements recommended to lift the performance of the sector needs to be cognisant of these issues, and enable flexibility so that requirements are proportionate.

The sections below outline our responses to questions posed in the discussion paper where they are relevant to Essential Water.

Determination period

A longer determination period than the standard two years is preferable for a smaller water business, where the regulatory burden of water proposals has more of an impact, and there are less resources available to direct the necessary attention away from business as usual. As part of this though, it is important that proposed cost-pass throughs are given due consideration by IPART, to prevent unequal sharing of costs and risks between the utility and its customers. We would also welcome a mid-review engagement with IPART, as a means of sharing key current issues for our business and our community, as well as allowing IPART to view our progress against the current regulatory period.

Performance standards

Essential Water proposes that performance standards continue to be set based on the minimum standards. The potential to work to optimal standards (and being incentivised to do so) is not feasible with a small business and this would result in additional costs to customers. Our customers indicate that they are happy with the current service that we supply and these are based on the minimum standards. We suggest that if the standards are to reflect customer expectations, then a significant investment would be required to determine that those standards reflect the entire customer base, rather than a small sample.

Customer choice pricing

Being a small utility, Essential Water is not in a position to provide a higher quality service or more flexible service-price offerings for those customers who are willing to pay for it. Our customer base has one of the highest rankings for socio-economic disadvantage, so this issue is not a high priority for Essential Water.

Different forms of price control

As noted above, Essential Water’s customer base is not generally in a position to absorb significant price increases on a year to year basis, so the change from a price cap to a revenue cap, (and intra-period adjustments) is not necessarily in the best interests of our customers. The current demand

volatility mechanism allows for revenue true-ups to be triggered at the next price reset, although we recommend that IPART review the +/-5% dead-band, with a view to removing this. Some businesses, however, may wish to propose a revenue cap or weighted average price cap - from our experience in the electricity market, we would recommend that there are benefits in revenue adjustments being able to be smoothed over several years rather than being prescribed to recover in one particular year – that can lead to significant price swings for customers.

Shadow price for leakage

The introduction of a shadow price for leakage charged to Essential Water as an incentive to reduce leakages and conserve water is not supported by Essential Water. We are currently experiencing a significant increase in leakages that require investment due to the age of the piping – the replacement work is vast, is being required over the long term, and there are likely to be significant variations in leakages, so a target will be difficult to set. Furthermore, penalties or benefits will mean that there is likely to be additional focus on this work, potentially to the detriment of other work which is arguably more important. Essential Water's demand profile is decreasing rather than increasing, so augmentation is not expected. A reduction in leakage or unbilled water within Essential Water's network will simply close the gap between water purchased and water sold. A large capital investment to close the gap would be difficult to justify.

Regulatory advisory panel

Essential Water is supportive of a Regulatory Advisory Panel (RAP) that consists of the relevant bodies that ensure the economic, environmental, and health outcomes of the water industry in NSW. A coordinated approach is welcome, in the anticipation of aligned, balanced regulations in the long term interests of customers. We recommend membership by IPART, the NSW Environmental Protection Agency (EPA), NSW Health, the Department of Planning, Industry and Environment (DPIE), the Dams Safety Committee, and the Natural Resource Access Regulator. It may also be of benefit to have some level of customer representation.

Essential Water is happy to discuss these issues further. Please contact our Network Regulation Manager, Mary-Clare Crowley on ([REDACTED])

Yours sincerely

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