

Sydney Water Operating Licence – Declaration of commercial interest

Sydney Water Corporation is a corporation, with a legislated requirement to be a successful business. In the discussion about the Sydney Water Corporation Operating licence IPART and Sydney Water Corporation are silent about the commercial interests of the Sydney Water Corporation and a consideration of the financial costs and benefits to the Corporation arising from the advice the Sydney Water Corporation gives.

The commercial interests of the Sydney Water Corporation are not a minor issue and have clearly been a consideration in the legislation for both Sydney Water Corporation and IPART. The Sydney Water Act requires the Sydney Water Corporation to maximise the net worth of the State's investment in the Corporation and complete a Statement of Corporate intent which details revenue and future dividends the Corporation will pay the State Government. Similarly, IPART legislation requires IPART to consider the impact of borrowing, capital and dividend requirements on pricing policy.

IPART is to be congratulated on the thorough and public way they calculate the notional revenue for the Sydney Water Corporation through the Building Block Method. The Building Block method is a relatively simple model based on two major costs, operating costs and return from capital invested. Operating costs are a pass through costs, there is no additional revenue.

The return from capital includes depreciation and a return on capital, calculated by applying a weighted average cost of capital to the regulatory asset base. We consider this last aspect is the key issue in creating a financial interest that Sydney Water Corporation should declare.

When Sydney Water Corporation makes a recommendation to build additional infrastructure or other measures which will increase the regulatory asset base there is a clear and easily measured financial benefit to the Sydney Water Corporation. Where an alternative strategy is considered that will not result in an increase in the regulatory asset base there is a relative financial loss to the Sydney Water Corporation. This is not the only consideration for decision makers but professional practice and government convention is that such a pecuniary interest should be declared.

Once a declaration is made then the views and advice of Sydney Water Corporation can be considered by the regulator using well established processes and conventions for a declared commercial interest.

Submission

The Sydney Water Corporation declare a commercial interest in decisions affecting the size of the Regulatory Asset Base and IPART consideration of the Operating Licence recognise the commercial interest of Sydney Water Corporation.