

Ref: 20220923CG:NL

23 August 2022

Draft Water Regulatory Framework  
Independent Pricing and Regulatory Tribunal

*Via online submission*

## **Draft Water Regulatory Framework**

Essential Water welcomes the opportunity to provide feedback to the Independent Pricing and Regulatory Tribunal (IPART) on its Draft Water Regulatory Framework (Draft Report and accompanying Technical Report, hereinafter referred to as “the draft report”). We welcome IPART’s innovative approach to designing a regulatory framework that is fit for the future and are supportive of its focus on customers, costs and credibility (the 3Cs). In addition, we support the move to a five year regulatory period.

As we have stressed throughout this review, the ability to tailor the regulatory framework is particularly important, especially for a water business such as Essential Water who provides an essential service to a small number of customers in a remote and challenging environment. It will be important that IPART is cognisant of the significant step change that the draft framework represents for businesses and that it allows for this in how it assesses initial proposals under the new framework.

We have set out below our feedback on the draft report.

### ***Proposal grading***

The draft report sets out the proposed self-assessment process that each water business will undertake to grade its proposal as either Standard, Advanced or Leading, against the 3Cs and 12 guiding principles. IPART will then confirm whether it agrees with the assessment and tailor its review of the proposal accordingly. Essential Water is concerned that it could be difficult for smaller entities to move beyond the Standard classification, as Advanced and Leading require a greater level of resources to reach these levels, especially in relation to implementing a more comprehensive customer engagement process, which is central to the draft framework.

### ***Self-assessment process***

The draft report includes an assessment tool which includes a rubric of principles to differentiate between Standard, Advanced and Leading proposals. The level of expectation between Standard and Leading is fairly clear but the points of differentiation between Standard and Advanced are not always as obvious. This may lead to uncertainty as to which category is applicable for a business.

Key to the self-assessment process will be clear guidance and Essential Water welcomes IPART’s proposal to develop of a “better water regulation handbook” in consultation with stakeholders. The inclusion of concrete examples of how the process will work will be very important.

### ***Financial incentives***

IPART has proposed that as well as introducing a number of incentive schemes, it will also offer a financial incentive to businesses who improve upon their previous assessment rating. This incentive rate will vary, depending on the level of advancement, with a maximum reward of an additional revenue allowance of 2.5%. Essential Water is concerned that this proposal may be problematic for its customer base, where affordability is always a key consideration.

### ***Modelling simplifications***

Essential Water is supportive of the proposed modelling simplifications of the Regulatory Asset Base (RAB). We would also welcome a simplification of the *Annual Information Return/Special Information Return (AIR/SIR) model* and the *Regulatory financial and pricing model for metropolitan water agencies (water, sewerage and stormwater)*. Both these models contain a large number of tabs and calculations, and are not straightforward for the user to populate or interpret.

### **Cost pass-through refinements**

We note the tools other than cost pass-through mechanism outlined by IPART in its draft framework to deal with uncertainty – ex-post true up, letter of comfort, partial or full re-opener of a pricing determination. We believe that the refinements to IPART's cost pass through guideline do not go far enough to provide a utility with a reasonable opportunity to recover the efficient cost of running a water business. The requirement to provide the exact detail and potential cost of a cost pass-through event in advance is counterintuitive – we believe that the events should be limited to those that are outside of the control of the business and are unforeseen.

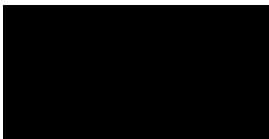
Essential Water believes that a cost pass-through framework similar to that of the Australian Energy Regulator (AER) represents a better alternative for IPART to consider. It ensures a high level of rigour to the cost pass-through process and recognises that the type of cost pass-through events that are included in the regulations are those that are genuinely outside of the control of the business. Other events that are foreseen but not certain can be either included in robust forecasts or dealt with as a contingent event.

### **Benchmarking**

The draft report notes that IPART will make greater use of benchmarking. Whilst benchmarking can provide useful insights, it will be important to take into account and adjust for the unique circumstances of each business, so that the comparisons made are meaningful and the conclusions arrived at are fair.

Essential Water is happy to discuss these issues further. Please contact, Mary-Clare Crowley (Acting Head of Regulatory Affairs) on [REDACTED].

Yours sincerely



Natalie Lindsay  
**Acting Executive General Manager Corporate Affairs**