

Ms Liz Livingstone
Chief Executive Officer
Independent Pricing and Regulatory Tribunal (IPART)
PO Box K35
Haymarket Post Shop NSW 1240

20 July 2021

Dear Ms Livingstone,

Submission on IPART's Regulatory Framework Review – Discussion Paper 2

Thank you for the opportunity to comment on IPART's regulatory framework review discussion paper on Promoting a Customer Focus. SDP supports promoting a customer focus and placing the long-term interests of end-use customers at the centre of economic regulation.

SDP always strives to work constructively with Sydney Water, to support water system resilience and deliver the most reliable, best value, service we can. In the context of SDP price reviews, we consider that the best outcomes can be achieved for customers through robust engagement with Sydney Water and IPART.

We agree that for utilities with significant end-use customer interactions, greater engagement with those customers (e.g. through customer advisory councils) may add significant value, helping guide decision making with a customer focus.

SDP does not have a direct interface with end-use customers, our only direct customer at present is Sydney Water. In addition, the manner and the circumstances in which we provide water security and supply services is prescribed by the NSW Government within our Operating License. Our License does not currently require us to maintain a customer advisory council and we think that this remains appropriate. Due to the factors described, we do not consider that a customer engagement plan should be required for SDP's pricing submissions.

That said, whenever SDP does identify clear end use customer benefits which are not identified by other water businesses including Sydney Water, it will continue to put forward its case independently to IPART.

We do not support a grading system for the quality of utility proposals as it would be unlikely to enhance outcomes for customers. IPART's information guidelines for water agency pricing submissions require a high standard to be delivered from pricing submissions. Further, any grading system would be inherently subjective and likely suffer from a lack of transparency. The most appropriate framework for assessing whether a pricing submission delivers in the long-term interests of customers is the current framework where IPART:

- Undertakes robust stakeholder engagement on a utility's submission
- Assesses each position put forward on its merits, with a view to achieving outcomes consistent with the long-term interests of customers and the utility
- Reviews its proposed determination as a whole to ensure that it is internally consistent

We consider that increased flexibility within the regulatory framework would assist in promoting a customer focus. Our recent experience with emergency response notices to remain operationally available following bushfires, pandemic, floods and due to major water network asset risks demonstrated how SDP, IPART and Sydney Water were able to deliver the best outcome for customers despite operation outside the strict limitations of our current regulatory Determination. In the future, we consider that where SDP could add value for customers by providing bespoke services (not defined in a Determination) to Sydney Water, this could be achieved through negotiated agreements with Sydney Water.

Finally, it is our view that incentive schemes should promote outcomes in the long-term interests of customers and this is best achieved when business incentives are aligned with customer outcomes. The abatement scheme that currently applies to SDP is the strongest financial incentive mechanism that currently exists in the water sector in NSW. However, through our experience over time, it is clear that there are refinements that would enable it to better meet the long term interests of customers. Where refinements to incentive schemes could better achieve alignment between customers' interests and business incentives, this should be pursued. We propose to submit further on this point in response to IPART's discussion paper 3 on "Innovation and incentives".

We look forward to further constructive engagement with IPART on its Regulatory Framework. Please do not hesitate to contact myself or Iftekhar Omar, General Manager Regulation

[REDACTED] if you or your team have any queries regarding this submission.

Yours sincerely,

[REDACTED]

Philip Narezzi
Chief Executive Officer
Sydney Desalination Plant Pty Limited
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