17 February 2023

Water Regulation Review
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
Sydney NSW 1240

## RE: Water regulation – Draft Handbook

Dear IPART,

We thank IPART for the opportunity to respond to the Draft Handbook supporting water businesses' preparation of their proposals under the new 3Cs framework. We welcome the guidance this handbook provides and would like to seek clarification on some of the precise details it explores.

In developing our next proposal, we are implementing an ambitious agenda of changes in the way we do business. This includes actioning reform outcomes from IPART's review of water regulation, in addition to investigating a range of our own regulatory innovations for our customers. While the Draft Handbook is helpful in conveying some of the expectations for these new proposals, we reiterate the importance of continuing early engagement to explore in greater detail what they mean for our customers, IPART and Sydney Water. We look forward to continuing to engage with IPART in an open and transparent manner.

We consider it would also be useful if IPART would clarify in their Draft Handbook, the following:

- In section 3.2.1., IPART refers to a water business' long-term investment plans and its alignment with its own Growth Servicing Plan and Long Term Capital and Operational Plans. Is IPART expecting the long-term investment plans to be different documents from the LTCOP? If so, why?

- In section 3.2.2., IPART refers to methods for growth forecasts, key information, inputs and assumptions. We use NSW Department of Planning & Environment's housing supply model as a key input. Using this as an example, for these types of inputs from government, could IPART clarify their expectations for businesses to explain how the inputs were produced and to what extent IPART expects businesses to interrogate and challenge the inputs?

- In section 4.8.3., what is the rationale for a stand-alone Board-approved published cost efficiency strategy as distinct from a cost efficiency strategy contained in the Forecast Expenditure chapter of the Board-approved published price proposal?

- IPART's previous guidelines for water agency pricing submissions featured a checklist for pricing submission contents. Some of these appear to be omitted in the new handbook (such as specific RAB and other supporting building block tables). We query whether it would be useful to include a consolidated list of requirements for pricing submissions.

- IPART refers to a customer engagement strategy in Appendix B.1 and a customer engagement plan in Section 3.11. Could IPART clarify whether it considers these are the same. If not, what differences does IPART see between the two?

- In Appendix A.5, we consider it will be helpful for operational teams if IPART were explicit in excluding mandated unregulated recycled water schemes and other unregulated activities subject to different IPART regulation and/or sharing methods (such as property disposals and unregulated pricing agreements).

- In Appendix A.5.1., we request that IPART provide precise guidance on calculating profit, such as incremental income tax liabilities (calculated based on the statutory corporate income tax rate of 30% and projected tax depreciation); notional interest payments assuming: pre-tax cost of debt consistent with the WACC assumptions included in the pricing proposal for regulated services; debt repayment over the shorter of the economic life of the asset and term of unregulated contract/s; and depreciation over the shorter of the economic life of the asset and term of unregulated contract.

We also welcome IPART's consultation on the draft AIR and SIR. We request that IPART clarify:

- What the expectations are of providing historical data for opex by the new functions? Doing so will be relatively difficult for us as we have recently moved systems. If there were little practical benefit to IPART from this, we request that IPART allows legacy-styled reporting for 2020-21 and does not prescribe this requirement for water businesses.

- Why IPART requires major capex to be remunerated on an as-commissioned basis? We understand that IPART does not want customers to pay for major capex projects while they are not receiving the benefit of them. However, we understand that IPART trues-up those costs regardless – we query whether remunerating on an as-incurred basis would result in a smoother bill path. We consider a smoother bill path is aligned with IPART's principles, is preferable for customers and is better for our financeability. Would IPART help us understand its economic reason for this decision?

- That the CESS calculations for both major capex and other capex are treated equally? That is, if forecast major capex in the CESS is treated on an as-incurred basis, actual major capex is treated on an as-incurred basis.

- Why IPART require a split of nominal, real and low-coupon debt? For the actual financeability test, we understand that IPART requires information regarding our actual regulated debt. This is relatively simple to aggregate up using existing processes for our financial statements. Re-aggregating into IPART's proposed groups adds some complexity. We assume that IPART is looking to differentiate between the cash cost of debt, and the accounting cost of debt. However, we query whether the cash cost could be easily determined by requesting the face value of debt and the average Coupon/interest rate instead. Similarly, the accounting cost of debt could be determined by requesting the book value (capital value) of debt and the average yield.

If you would like any further information or to discuss, please contact [redacted]

Yours sincerely

[redacted]

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