Submission to the Independent Pricing and Regulatory Tribunal

Response to the IPART Supplementary Draft Report on the Review of WaterNSW's Non-Urban Metering Reform Charges

23 July 2021

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1. Introduction

WaterNSW is pleased to provide this response to IPART's Supplementary Draft Report (the **"draft report"**) on the review of WaterNSW's non-urban metering reform charges published on 22 June 2021.

This submission responds to issues raised in the draft report regarding the proposed costs and approach to delivery of the NSW Government's program of non-urban metering reform.

WaterNSW supports IPART's proposed approach to setting the metering reform charges over the upcoming 2021-25 determination period.

IPART's proposed approach is generally consistent with our original Metering Reform Proposal submitted on 30 November 2020 and our responses to the IPART Draft Determinations on16 April 2021 and the IPART Efficiency Review.

As such, this submission does not seek to repeat the contents of our Metering Reform Proposal (or our response to the IPART Draft Determination). Instead, we have sought to focus on issues which have a material impact on the administration of the metering reform policy, such as the application of the metering reform charges and IPART's top down approach to setting the IPART efficiency measures.

In the Supplementary Draft Report, IPART has concluded that it now has sufficient information to make draft decisions on the efficient costs of implementing the non-urban metering reforms. This finding is a culmination of a 12 month IPART Price Review Process, which includes a comprehensive audit of our expenditure proposal, an IPART public hearing on the costs of non-urban metering reform, IPART Draft Determinations for Rural Valley and WAMC customers, our detailed November 2020 submission on the costs of non-urban metering reform charges, and our April 2021 Metering Reform Submission containing revised cost estimates and analysis as requested by IPART and its consultants.

The following sections respond to the matters identified in the Supplementary Draft Report.

2. Application of top-down efficiencies

In the Supplementary Draft Report, IPART has placed significant reliance on top-down efficiencies in setting the IPART regulatory allowance as opposed to scope adjustments that refer to the evidence and the project materials.

Based on the calculations provided by Cardno, the total proposed efficiency of 3.9% p.a. (i.e. 3.2% p.a. for catch-up efficiency and 0.7% p.a. for continuing efficiency) appears excessive.

While we recognise that some form of judgement is used in assessing the appropriate level of catch-up and continuing efficiency as part of the regulatory process, the use of judgment should be based on rigorous testing and analysis that is noticeably absent in the Supplementary Draft Report. This detailed analysis is essential in promoting transparent pricing decisions and ensuring the IPART efficiency targets are both reasonable and achievable.

Our comments on the methodology for calculating the top-down efficiencies are set out in our responses to the IPART WAMC and Rural Valley Draft Determination, which form part of this submission.

In addition to these comments, WaterNSW questions the relevance of applying catch-up efficiencies to new activities and scope items such as the costs of the non-urban metering reform.

We suggest that it would be reasonable for an entity to be given time to better understand the optimal approach to supporting new policy requirements before applying any efficiencies.

The costs of non-urban metering reform were not contemplated in the current period allowances. These costs were triggered by external factors outside of WaterNSW's control such as NSW Government policy changes and or NRAR's compliance regime.

Catch-up efficiencies

WaterNSW notes that IPART has proposed an unprecedented level of catch-up efficiency of 3.2% per annum (on a cumulative basis) to the administrative (operating) costs of the metering scheme, a scheme which is being implemented for the first time in NSW and has WaterNSW taking all the risks with respect to implementing the supporting policies, systems and operating model.

We submit that the 3.2% cumulative catch up efficiency based on WAMC-wide costs beyond those of WaterNSW costs) is both excessive and arbitrary and could compromise our ability to administer the metering scheme to the standards set by the NSW Government. The proposed Cardno catch-up efficiency rises to 12.2% in 2024-25, which we consider to be unattainable when implementing the new metering reforms.

WaterNSW considers that there should be **no catch-up efficiencies** applied and that catch-up efficiencies should be considered in the next determination period rather than applying it over the next four years. This is due to new services being implemented, with limited short-term ability to find efficiencies while meeting a challenging roll-out timetable.

However, if IPART decides to incorporate a catch-up efficiency (which we do not support), then:

- IPART's / Cardno's proposed 3.2% p.a. in the Supplementary Draft Report is excessive and should not have been based on water monitoring costs beyond those incurred by WaterNSW; rather, it should have started with **WaterNSW-only costs**. By doing so, this reduces the catch-up efficiency to **2.2% p.a**.; however
- We consider that Cardno has taken the wrong starting point in its analysis. Any catch-up efficiency to be incorporated by IPART should be **capped at 1.1% p.a.** as per the March 2021 IPART Rural Valleys and WAMC Draft Determinations and the associated Cardno / Atkins reports (not 3.2% p.a. proposed in the Supplementary Draft Report).

  This reflects that it is one entity (WaterNSW) providing metering services to both RV (regulated rivers) and WAMC (unregulated rivers and groundwater). It is impractical and unachievable to apply a higher catch-up efficiency for the new set of metering obligations than for our core Rural Valleys and WAMC obligations that draw on many of the same resources.

In considering the deferral of the catch-up efficiency, **we highlight that equity holders are already receiving record low equity returns. In particular, we query whether it is it reasonable to ask equity holders to bear the implementation risks of the NSW Government policy and then to also overlay these risks with a catch-up efficiency for new services.**

In the Supplementary Efficiency Report, IPART's consultants, Cardno stated that;

> *This level of efficiency is 3.9% per annum (calculated as the movement between the average level of operating expenditure in the current period and the average level of operating expenditure in the future period over a five year period). As this efficiency will also have been contributed to by continuing efficiency, this needs to be subtracted from the total efficiency to arrive at the level of catch-up efficiency achieved. On this basis, the level of catch-up efficiency achieved in surface water and groundwater monitoring activities in the current period is 3.2% per annum and this target has been applied to arrive at our estimated level of efficient operating expenditure*

The efficiencies in the Water Monitoring Team were achieved under the consolidation of the State's existing water monitoring assets and functions into one entity, WaterNSW. The industry restructure resulted in efficiencies in each of the IPART determinations for the provision of water monitoring services (e.g. WaterNSW Rural Valleys, WAMC and WaterNSW Greater Sydney).

The circumstances in which the Water Monitoring efficiencies were achieved do not apply to the costs of administering the Government's Metering Regime. For example, the metering reform functions, activities and responsibilities (which are new scope items) were not consolidated into WaterNSW. In fact, the opposite has occurred; the costs are being driven by new regulatory requirements introduced by the NSW Government and the requirements of multiple agencies involved in the implementation of the metering scheme, such as NRAR and DPIE. Furthermore, unlike the Water Monitoring costs, the costs of the non-urban metering reform were not included, or contemplated in the current period allowances.

In addition, we note that the catch-up efficiency is applied in circumstances where IPART considers the Regulated Entity is 'lagging behind' the Benchmark Utility. That is, the Regulated Entity should have achieved a greater level of efficiency in the current period. WaterNSW suggests that the application of catch-up efficiencies would lack a theoretical basis if applied to the costs of new scope items.

Non-urban metering reforms are being progressively rolled out in each of the Murray Darling Basin jurisdictions, which raises questions as to whether a Benchmark Entity can be identified for the administration of the metering scheme. At the very least, the Benchmark Entity cannot be identified until the subsequent (2025) pricing period once the reforms are successfully implemented in each of the MDB jurisdictions as per the timeframes set out in the MDB compliance compact.

While we believe that IPART could apply the catch-up efficiency at a subsequent (2025) pricing period, it would be premature to do so in the absence of actual data to assess WaterNSW's performance in administering the metering scheme relative to its peers. Not only is this data, such as a transparent 'efficient frontier', unavailable in the current Price Review, but it is essential in determining whether WaterNSW is 'lagging behind' the Benchmark Utility.

We submit that the costs of the non-urban metering reform should not be subject to a catch-up efficiency and continuing efficiency (detailed arguments in relation to the continuing efficiency are contained in our responses to the IPART Draft Determinations).

As a minimum, if IPART was to apply a catch-up efficiency (which we do not support), the level should be no more than that established for the Rural Valleys and WAMC determinations in their entirety. This is on the basis that metering is one component of the wider services provided by WaterNSW and meeting a separate (higher) efficiency for a new obligation is not achievable in the short term.

The catch-up efficiency applied by IPART / Cardno is not based on the water monitoring efficiencies gained by WaterNSW. The calculation includes costs incurred by agencies beyond WaterNSW. We consider that this efficiency should be (and we believe was intended to be) based on **WaterNSW-only costs** as WaterNSW is the agency responsible for implementation of the reform.

Restating the IPART/Cardno catch-up efficiency (3.2% p.a.) to a WaterNSW-only basis results in a (lower) catch-up efficiency of **2.2%** p.a.

Continuing efficiencies

In the IPART Supplementary Draft Report, IPART proposes continuing efficiencies of 0.7% per year. This is consistent with the continuing efficiency proposed by IPART in its 16 March 2021 Rural Valleys and WAMC Draft Determinations.

Our response to the IPART 2021 Rural Valleys Draft Determination, WaterNSW stated that the 'frontier company' approach that IPART's consultant, Atkins, has applied to its catch-up efficiencies assumes ongoing productivity improvements in the operation of the business over time. The productivity improvements are predicated on underlying growth and improvements in the economy that should flow through to the sector.

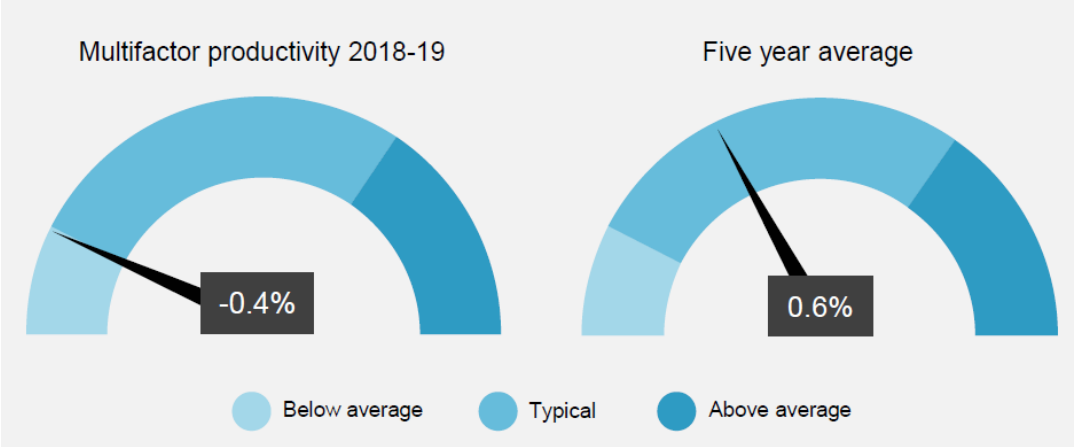
WaterNSW considers that targeting efficiency is an important element of the regulatory framework in order to deliver long term benefits to customers. With respect to the continuing efficiency, we do not consider it unreasonable to introduce some productivity 'offset' that reflects the expected productivity improvement of the economy as a whole (or alternatively the water sector). This is consistent with the fundamental structure of "CPI-X" regulation. However, we have concerns about the use of continuing efficiencies of 0.7% per annum.

WaterNSW submits that for the purposes of setting expenditure allowances over the *forthcoming* regulatory period, what is required is the best estimate of expected productivity over the *forthcoming* regulatory period - not an estimate of long-term productivity. Long-term productivity reflects the emergence and adoption of new technologies, substitution between inputs (e.g. between labour and capital) and long-term changes in outputs over a period of decades.

Hence, when setting continuing efficiency targets, IPART should consider what is feasible for the water industry over the forthcoming regulatory period, rather than over the long-run.

WaterNSW also notes that even at the market-sector level, estimates of productivity can be sensitive to the measurement period. This can be seen in Figure 1 below, which indicates that productivity in 2018-19 was below average, and considerably lower than productivity measured over a five-year horizon.

Figure 1– Multifactor productivity over different periods



Source: Productivity Commission, Productivity Insights, February 2020. Page 2.

Recent analysis by the ABS indicates that, in 2019-20, due largely to the COVID 19 pandemic:[1]

- MFP *fell by 0.7%* across the market sector; and
- MFP *fell by 3.5%* in the utility industry.

[1] See: https://www.abs.gov.au/statistics/industry/industry-overview/estimates-industry-multifactor-productivity/2019-20.

Given that the economic effects of the pandemic have not been reversed, it seems highly unrealistic that WaterNSW should be expected to achieve a *0.7% per annum increase in productivity* over the next regulatory period.

However, that is what would be expected of WaterNSW if IPART were to apply its existing approach of setting a continuing efficiency target by reference to average MFP over the past 40 years.

WaterNSW's proposal

WaterNSW proposes that when determining a continuing efficiency target, IPART should:

- Give most weight to the measured productivity of the utility industry (rather than the market sector) since the utility industry most closely reflects the input and output characteristics of water businesses; and

- Give most weight to MFP estimates over the most recent historical years (rather than 40 years) in order to produce more realistic estimates of the scope for productivity gains over the forthcoming regulatory period.

Consistent with our response to the Rural Valleys Draft Determination, and based on the evidence provided above, WaterNSW proposes that a continuing efficiency target of **0-0.35% per annum**, rather than the 0.7% per annum should be adopted in the Final Determinations for Rural Valleys and WAMC.[2] This should also be the continuing efficiency to apply to metering charges.

The lower bound is set based on evidence from the utilities sector that suggests a productivity factor no higher than zero. Our proposed upper bound is 0.35%, which is the midpoint between the utility sector productivity measure (0%) and the long-term productivity measure applied by IPART (0.7%). We consider this to be a conservative range and that the appropriate factor for a water utility over the next four years lies closer to the utility sector productivity factor (i.e. the lower bound).

3. Unders and Overs Mechanism

WaterNSW has proposed an unders and overs (UOM) mechanism to mitigate the financial risks inherent in the uncertainty of the forecasts, costs and customers opting out of the Metering Reform Program.

In its Supplementary Draft report, IPART's preliminary view is to not introduce an unders and overs mechanism. In forming this view, IPART states that it has considered the impacts on metering charges and bills.

Although the IPART Supplementary Draft Report provides an appropriate level of base-line funding for the administration of the metering scheme (after reversing the top-down efficiencies), there is uncertainty attached to the program roll out and the cost estimates, due to potential changes in the policy landscape and the roll out schedule / volumes, which is ultimately outside of WaterNSW's reasonable control. On this basis, we believe it is appropriate for IPART to introduce a UOM to mitigate the residual financial risk inherent in the program roll out.

IPART has expressed concern that it is not appropriate for WaterNSW to have an UOM to mitigate its financial risks. IPART states that it believes WaterNSW should be completing a robust

[2] WaterNSW 16 April 2021 *Response to the IPART Draft Determination on the review of bulk water prices for WaterNSW in the Rural Valleys from 1 July 2021,* page

business case to provide assurance that its proposed costs and prices are efficient, as opposed to retrospectively seeking cost recovery for its actual costs which may potentially be inefficient.

However, IPART has not considered the circumstances that led to the timing of the submission of the costs associated with the non-urban metering reform. We note that the introduction of the metering reform requirements (including clarification on the ownership arrangements for the Government owned meters) did not coincide with the timing of the IPART Price Review.

Despite the recent introduction of the non-urban metering reform policy and the recent guidance regarding the ownership arrangements for our Government owned meters, WaterNSW nevertheless did everything within its control to quantify the efficient costs of the metering regime in the time available. WaterNSW did everything a commercially successful operator would do in the same circumstances given the short timeframe and the deadlines provided under the IPART Price Review process.

Although it is unfortunate the introduction of the metering requirements (and the required guidance) did not coincide with the IPART pricing process, we note that the timing was outside of WaterNSW's control.

Irrespective of the timing issues, WaterNSW worked closely with IPART and its consultants to resolve the evidence gaps identified during the Price Review. WaterNSW has undertaken analysis, including an extensive sensitively analysis, to provide assurance that our proposed costs and prices are efficient. WaterNSW has also assessed the risks associated with its implementation program and identified mitigation measures required.

Having undertaken that sensitivity analysis, we opted to take on significant cost and commercial risk in order to achieve lower starting prices for customers, provided a UOM was adopted to allow us to manage that risk. That is, our proposed lower prices were contingent on the availability of a UOM. In the absence of a UOM and with heightened risks, the efficient costs of providing metering services should be more in line with those outlined in our original submission.

WaterNSW considers the UOM provides a reasonable and balanced solution for the potential risks and uncertainty of the roll out of the non-urban metering reform and the UOM should be implemented over the upcoming 2021-25 determination period.

4. Tariff Structure

WaterNSW had proposed to recover the costs of non-urban metering reform using a cost reflective tariff structure where costs are recovered only from those customers that utilise the service. The scheme management charge is levied on those customers who benefit from the metering scheme, such as all billable licence holders and Zero Share Water Access Licences (WAL).

IPART has broadly accepted our proposed tariff structure.

However, instead of a uniform charge to recover the costs of telemetry and non-telemetry services, IPART has proposed to disaggregate the telemetry charge using a sliding scale that refers to the proportion of customers that take up telemetry. That is, the scheme management charge and telemetry charge would decrease as the proportion of telemetry customers increases.

WaterNSW queries the administrative complexity of this arrangement, including the operation and trigger point for the sliding scale of telemetry charges.

Whilst the sliding scale is based on WaterNSW's sensitivity analysis on the impact of telemetry take-up rates, this analysis was based on the hypothetical long run costs of administering the non-urban metering reforms. We expect it would take approximately 2 years to fully implement

the proposed cost reductions taking into account the actual telemetry take-up rate, the requirement to phase out of manual labour processes leading to avoided costs, and the need to resolve any teething issues between the customers' telemetry unit and our IT systems.

We would expect to have data to underpin a reasonable estimate of take-up at a point in time (e.g. start of April to report to IPART) and to be in a position to provide a reasonable forecast for take-up as at 1 April each year (i.e. we will use the best available information in deriving the take-up rates to provide to IPART for pricing purposes, subject to our proposal for a 'lag' as discussed in Section 6 below).

WaterNSW notes that it may be challenging to source some of the information required to determine telemetry take-up rates, for example whether uptake is voluntary or compulsorily triggered, as we are reliant on legacy data and the information in our systems. We propose to rely on the existing WLS system, but note that there are likely to be challenges in correlating that data with DAS data, requiring WaterNSW to use its judgement when providing a reasonable estimate of the "trigger" for telemetry take-up pricing bands.

WaterNSW proposes that we provide IPART on 1 April each year a reasonable estimate of the take-up of telemetry as at 1 April taking into account the ACCC Price Notification requirements under the *Water Charge Rules 2010*.

As discussed below, WaterNSW proposes a one-year lag is introduced between when the telemetry take-up rates move into the next higher band and when the new tariff band takes effect

5. Transition to new charges

In its Supplementary Draft Report, IPART proposes the following transitional arrangements for the new metering charges:

- The scheme management charge would apply from 1 October 2021, as WaterNSW will incur several wider costs associated with introducing the reform from the start of the determination period.

- For customers with privately owned meters, the telemetry or non-telemetry charge would be prorated from the compliance dates specified under the Water Management (General) Regulation 2018.

- For customers with Government owned meters, the telemetry or non-telemetry charges and the meter service charge – operating costs would be prorated from the later of the compliance dates set out in the Water Management (General) Regulation 2018 or the date the meter is made compliant (if this is earlier).

With respect to the telemetry/non-telemetry and meter service charges, WaterNSW supports the transitional arrangements proposed by IPART to the extent they reflect the compliance dates set out in the NSW Government's non-urban metering policy. However, for those customers subject to the 1 December 2020 compliance date which is prior to the commencement of the upcoming determination, the full non-telemetry/telemetry charges should be levied from year 1.

WaterNSW would like to clarify its position that the scheme management charges should be charged in full in Year 1 when the charge is applicable. Further details are provided in the 'impact of deferral' section of this submission.

6. Duplication of costs

IPART has queried whether the existing metering cost in our bulk water charges overlaps with the costs of non-urban metering reform.

WaterNSW's proposed metering reforms and associated new meter charges have been developed as new and incremental charges to existing metering costs. The activity that is expected to be undertaken is a new activity and does not replace any of the existing metering work undertaken by WaterNSW.

WaterNSW's existing obligations have not changed, in fact we are under-recovering given the level of activity required to meet our current obligations and the funding included in the current determination. Forecast metering and compliance costs are declining relative to the current period actuals.

Our metering submission stated that there are many external factors that will impact our operating model over the upcoming 2021-25 determination period. Until all water users have made their works compliant to the new regulations and made their choice in relation to telemetry up take, WaterNSW is not in a position to consider the scale or extent to which these new metering functions can be integrated into our normal business operations.

We anticipate these new functions could be combined with our other operational activities to deliver efficiencies during the subsequent 2025-2029 determination, as by then we would anticipate the Metering reforms would be fully implemented. At that point, WaterNSW will be in a better position to identify the most efficient resourcing/ sourcing strategy and operational efficiencies that can be achieved between our current operating requirements (e.g. IPART operating licence) and the non-urban metering regulations.

As mentioned in section 4, to ensure that water users benefit from efficiencies arising from higher telemetry take-up, while at the same time not exposing WaterNSW to unachievable cost efficiency assumptions, WaterNSW proposes that **IPART provide a one-year lag between when telemetry take-up** rates move into the next band and when the new tariff band takes effect. We request that IPART build in a reasonable period for efficiencies to be achieved rather than (as discussed in Section 4 above) assuming efficiencies corresponding to higher take-up rates can be achieved immediately. IPART's suggested telemetry tiers are reproduced below.

Table 1.2 Draft decision on scheme management, telemetry and non-telemetry charges for different telemetry opt-in proportions ($2021-22)

Telemetry opt-in	Up to 25%	25-49%	50-74%	75% or more
Scheme management charge	74	67	60	52
Telemetry charge	226	204	189	180
Non-telemetry charge	226	221	221	221

Source: IPART using information provided by Water NSW and Cardno

To illustrate WaterNSW's proposed 'lagged' approach, if telemetry take-up (as calculated as at 1 April) and:

- Remains below 25% (Tier 1), then Tier 1 charges would be in place for all years;
- Increases to between 25-49% (Tier 2) in Year 1, then:
    - Tier 1 charges would be in place in Year 1 and Year 2; and
    - Tier 2 charges would be introduced in Year 3;

- Increases further to between 50-74% (Tier 3) in Year 2, then:
    - Tier 1 prices would be in place for Year 1 and Year 2;
    - Tier 2 prices would be introduced in Year 3; and
    - Tier 3 prices would be introduced in Year 4.

Lagged Approach		
Year	**Notification date of reasonable estimate of telemetry uptake**	**Commencement date of new charge**
2021-22	Not applicable.	Not applicable, Tier 1 charge applies
2022-23	Not applicable	Not applicable, Tier 1 charge applies
2023-24	Estimate notified to IPART by 1 April 2022	1 July 2023
2024-25	Estimate notified to IPART by 1 April 2023	1 July 2024

The one-year lag enables customers to receive the benefits of the higher telemetry charges as soon as reasonably practicable, while not exposing WaterNSW to unreasonable expectations regarding the delivery of efficiencies (noting the one-year lag is considerably less than the 2-3 year lag that we expect would be required to fully implement efficiency improvements for the new obligations).

While our preferred position is to make any adjustment to prices as part of the next (i.e. .2025) review of bulk water charges, we request that IPART adopt the one-year lag to the tiered pricing arrangements as outlined above.

7. Exit fees

WaterNSW flagged the potential introduction of exit fees for the Government owned meter scheme, to recoup the capital costs not met by the customer.

In its Supplementary Draft Report, IPART considers that an exit fee may be needed to mitigate the financial risks faced by WaterNSW as customers decide to leave the government owned meters program after investment has occurred.

However, it is noted that IPART has set the exit charge for the 2021 determination period at $0 on the basis that the NSW Government funding for government owned meters will cover our capital costs of upgrading the meters.

As a principle, WaterNSW would seek to recoup any unfunded costs (including capital costs not covered by the grant) in the subsequent (2025) price reviews. To this extent, WaterNSW would support the introduction of exit fees at that time.

8. Other comments

IPART appears to have omitted the 2020-21 forecast capital expenditure from the allowances to upgrade the Government owned meters.

Although the Government is expected to fund the capital costs for upgrading the Government meters, WaterNSW submits that the 2020-21 forecast capital expenditure should be included in the regulatory allowances for transparency, as this would reflect the full costs of upgrading the Government owned meters while the bill impact remains at $0. This matter becomes relevant in

the 2025 Determination period if the funding for the Government meters does not fully recover the prudent and efficient costs actually incurred, including capital expenditure incurred in 2021-21.

In addition, it would appear that IPART has not included the updated meter service charge for our Channel Meters as per our April 2021 submission. We request that the charges for Channel Meters should be included in the IPART Final Determination.

Meter Service Charge – Channel Meters		
Category	Existing Charges	New Charges*
Meter Service Charge – Channel Meters	$6,237	$9,409

* as per our April 2021 Metering Submission to the IPART Draft Determinations based on Model 1. O&M costs.

Working Weeks

In the Cardno Supplementary Report, Cardno has adjusted the total available working week per annum from 40.66 to 41.41. On page 11 of the Cardno report, Cardno state that:

> *The basis for this is that the 40.66 universally throughout WaterNSW's cost models to both the field staff and the non-field staff, e.g. communications and service centre personnel. However, office-based staff would not get the fifth week of annual leave (although this is dependent on their location under the terms of the EBA, with staff who work west of the Western and Central Division of the State described as such in the Second Schedule to the Crown Lands Consolidation Act 1913 (NSW) before its repeal accrue additional annual leave of five working days a year), and would not be subjected to the same field safety training requirements, safety assessments, downtime due to vehicle maintenance, etc. As a result, we have assumed that non-field staff work a 42 week working year. The 41.41 working week that has been used in WaterNSW's cost model is the weighted average of the 40.66 working weeks for field staff and the 42 working weeks for the non-field staff. The average four year ratio of field staff to non-field staff is 44% to 56% and this split has been used to weight the average working weeks assumption we have included in the mode*

WaterNSW disagrees with Cardno's assessment. To clarify, the Enterprise Bargaining Agreement does not state that non-field staff are not entitled to a fifth week of annual leave, shift workers are entitled to a fifth week of annual leave.

We also note that communications and service centre personnel are subject to mandatory training, team/management meetings, staff development and performance reviews, safety training and safety assessments and other training such as training on IT processes. It is incorrect to assume non-field staff would not be subject to the same level of corporate and or safety training as the field staff.

In fact, non-field staff may be subject to other specific training specific to their role in managing IT processes, implementing and providing oversight of corporate process, managing customer enquiries and complaints, processing and managing highly sensitive data and processing compliance and non-compliance certificates subject to legal requirements.

WaterNSW requests that IPART adopt the 40.66 working week assumption as per our April 2021 metering submission.

Expenditure on automation

On page 32 of the Cardno Supplementary Report, Cardno stated that:

> *Removal of the $0.328 million that WaterNSW has included in FY22 as a capital allowance to automate upload time for initial site inspection. The reason for this adjustment is because we consider that this expenditure duplicates the WAVE program*

> *expenditure. "WaterNSW considers that the current WAVE program does not include for this scope. We note that one of the benefits of WAVE is "Improved customer service from meeting customer expectations that now include web-based transactions, real time visibility of transaction status and water information" and consider that this functionality falls within this scope. We understand that the WAVE program and functionality is under development and there is opportunity for WaterNSW to incorporate this in an integrated and effective way in the wider scope.*

WaterNSW does not agree with Cardno's assessment. WaterNSW's proposed costs of automation are incremental to the WAVE project as are the total costs of the non-urban metering reform which have been costed as a new activity and does not replace any of the existing work undertaken by WaterNSW.

It should be noted that the WAVE expenditure was included in our 30 June 2020 submission prior to the submission of our non-urban metering proposal in November 2020 and prior to the required clarification and guidance from the Government on the operational impact of the non-urban metering reform. The recommendation for WaterNSW to incorporate into WAVE the specific costs of automation *in an integrated and effective way in the wider scope*, requires a commensurate increase in the IT allowances for the new metering charges (as proposed) or an adjustment to the WAVE capital allowances for the WAMC and Rural Bulk Water Charges.

WaterNSW submits that the proposed capital expenditure on automation should be included in the new metering charges. If not, then WaterNSW submits that there should be an equivalent adjustment to the WAVE capital allowances for the WAMC and Rural Bulk Water Charges.

9. Comments on the IPART Model

Use of the ACCC WACC

IPART has calculated a WACC using the ACCC pricing principles and applied this to all RABs to calculate the return on assets. WaterNSW considers that the IPART WACC methodology should be applied to assets relating to WAMC (i.e. unregulated and groundwater) meters to be consistent with the WAMC determination. In addition, the return on corporate system and vehicle assets should be calculated using a weighted average of the approaches to reflect the nature of these costs.

Impact of deferral

Based on our review of the pricing model, it appears that IPART have calculated "actual charges paid by customers" in Year 1 of the determination period using the assumption that 75% of the charges in the year will be levied.

WaterNSW would like to clarify its position that new charges in general (e.g. scheme management charges) should be charged in full in Year 1 when the charge is applicable. We note that this is not relevant for customer who will be subject to non-telemetry/telemetry charges which have specific transitional arrangements (customers transitioning from the existing water take assessment charge or existing meter service charge).

However, for those customers subject to the 1 December 2020 compliance date which is prior to the commencement of the upcoming determination, the full non-telemetry/telemetry charges should be levied from year 1.

This is in contrast to the treatment of existing charges which are to be updated in this determination, in which case it is appropriate to apply a pro rata between the existing charge and the new charge.

WaterNSW considers that it should not bear the costs of the delayed determination, and that charges should recover the entirety of the prudent of efficient costs.

Double counting capex in tax asset base

IPART has included both the capital expenditure and the value of Government grants in the tax asset base for meters. This results in a double count of assets for tax depreciation purposes and would lead to an overestimation of accumulated tax losses at the next price review. WaterNSW requests that these costs are only counted once in the tax asset base.