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Delivering Customer Value  
Draft Water  
Regulatory Framework

Public Hearing  
16 August 2022



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# Welcome and Acknowledgement of Country

Carmel Donnelly  
IPART Chair

## Why are we reviewing our approach?

- People continue to need **safe, reliable water** services
- Water businesses provide **essential services**, and customer expectations are changing
- Water sector also facing **numerous challenges** like climate change, population growth and economic volatility
- NSW Government is developing long term water strategies to improve **sustainability and resilience** in water sector
- Regulatory framework needs to evolve to enable businesses to **deliver customer value**

# IPART's commitments under the proposed framework



## 1. Act fairly

assess proposals on the quality of what is presented, not on historical experience



## 2. Openness

maintain an open-door policy and proactively engage with boards, executive leadership and regulatory teams



## 3. Tailored approach

focus on matters that materially impact customer value, reward businesses for efforts rather than penalise small errors



## 4. Earned autonomy

high quality proposals will be rewarded with lower regulatory burden



## 5. Customer-centric

hold business accountable for genuinely engaging with customers to identify what is in their long-term interest



## 6. Continuous improvement

continuously listen to feedback and improve the regulatory model

# Agenda

01 Summary of our proposed framework

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02 Stakeholder feedback

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03 Presentations from water businesses

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04 How does our framework support each business to deliver customer value?

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05 Open discussion

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## Summary of our proposed framework

## IPART's key proposals

- **Broaden the focus of pricing reviews** to promote customer value
- Enable businesses to deliver customer outcomes over the short and long term through a more **flexible and tailored regime**
- Financial, procedural and reputational **incentives** that reward businesses for delivering customer value, and penalise those that do not meet their commitments
- Retain elements of the existing framework that work well (building block model, propose-respond etc.)
- No change to the role of IPART, only how we approach regulating water businesses to better promote the long-term interests of customers

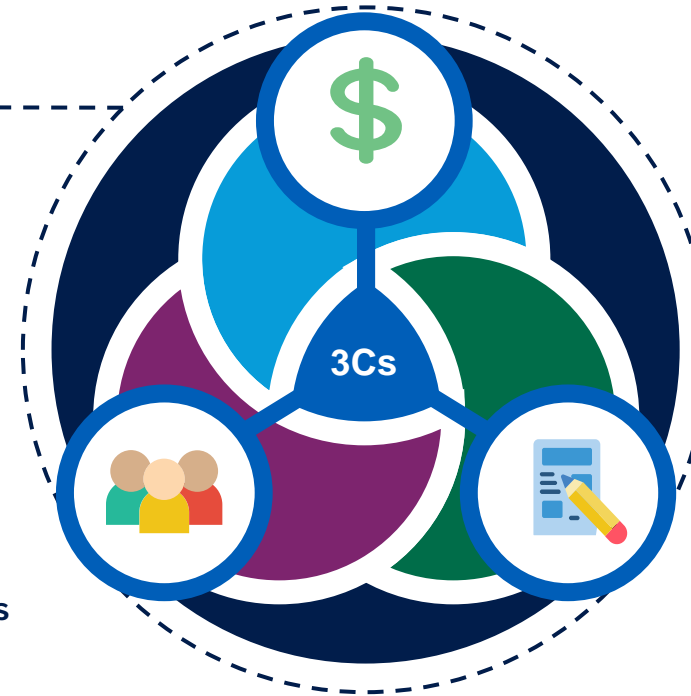
# 3c principles

A framework that focuses on customer value

## Customers

*Deliver services and expenditures that:*

- Are **customer centric**
- Reflect **customer engagement** feedback
- Promote better **customer outcomes**
- Meet **community** needs
- Support **environmental** sustainability
- Promote **choice of services**



## Costs

*Pricing proposals demonstrate:*

- **Robust costs**
- **Balance of risk and long-term performance**
- **Commitment to improve value**
- **Equitable and efficient cost recovery**

## Credibility

*Provide assurance your proposal is:*

- **Deliverable**
- Demonstrating **continuous improvement**



## A flexible, proposal driven approach

- Customers are at the core of the new regulatory model
- The framework supports direct and influential engagement between each water business and its customers to develop pricing proposals that meet their long-term needs
- A range of additional improvements to support water businesses
- Businesses that deliver better customer outcomes and cost efficiency are rewarded with streamlined regulatory processes and financial incentives
- The framework is designed to encourage all businesses to improve performance year-on-year
- IPART focuses on matters that materially impact customer value

# Enhanced incentives to promote customer value

## Financial

- Financial payments for 'advanced' and 'leading' proposals
- Financial and customer outcomes incentive mechanisms to share customer value (EBSS, CESS, ODIs)



## Reputational

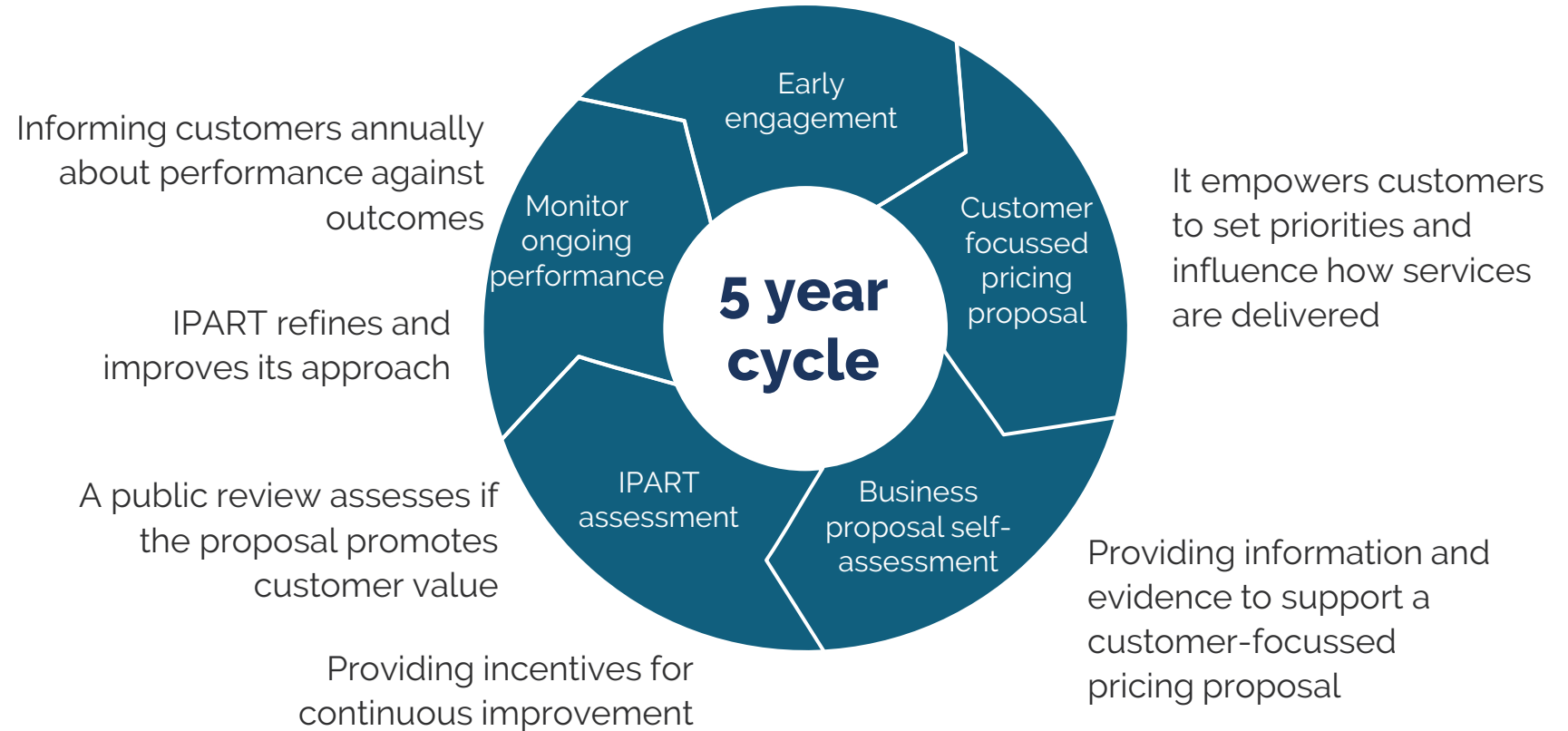
- Assessing the quality of the pricing proposal
- Informing customers annually on performance against customer outcomes

## Procedural

- Tailored review for high quality proposals
- Incentive mechanisms reduce regulatory burden by reducing the reliance on consultant expenditure reviews


# Pricing proposals drive how we employ regulatory tools

The business is encouraged to engage with IPART to lay the groundwork for better customer outcomes



# Working with the sector to promote customer value





What has been the opinion of stakeholders so far?

We value the  
sector's active  
engagement with  
IPART and  
feedback to our  
Draft Report

Key takeaways:

- The framework recognises and promotes customer value as the common goal for businesses and the regulator
- Reputational and procedural rewards under the assessment system represent strong incentives
- Assessment process remains uncertain and carries the risk that IPART will disagree with a business's self-assessment
- No option for financial incentive mechanisms and alternative price controls for standard proposals can exacerbate this risk
- Why a business would aim for an advanced or leading proposal

We want to  
encourage  
proposals that  
deliver customer  
value

- Our framework is designed to give businesses flexibility to talk to their customers and work with them on what constitutes good customer value.
- Over time, we want to accept well-substantiated and leading proposals from all water businesses
- Our framework rewards businesses who deliver better value to their customers
- Stakeholder workshops will support IPART to continually refine and build understanding of our proposed framework

## Discussion

- We are open to options for additional flexibility (e.g. around financial incentives and price controls)
- We are committed to transparency in our decision-making processes under the new framework

How could we further improve  
our regulatory framework?







Presentations from participants



How does our proposed  
framework help you deliver  
better customer outcomes?

# How do we help you deliver better outcomes for customers?

## **What do we want?**

- IPART's purpose is to make the people of NSW better off through independent decisions and advice.
- We want to promote the long-run interests of customers

## **What is the case for change?**

- Our focus on cost efficiency has delivered benefits.
- But it's time to broaden our focus and move to a more comprehensive and flexible approach.

## **How will this work?**

- Our proposed framework enables water businesses to efficiently deliver the services customers value.
- The framework attempts to align incentives and provides businesses that respond positively to those incentives with greater flexibility and autonomy.
- We are committed to work with the water sector to help ensure successful implementation of the framework.

We think our approach should align with the water business' objectives



## Strategic alignment

| #  | IPART's 12 principles (the 3Cs)       |   |   |   |   | Most relevant strategic objective(s)                                                                                                               |
|----|---------------------------------------|---|---|---|---|----------------------------------------------------------------------------------------------------------------------------------------------------|
| 1  | Customer centricity                   | ✓ |   |   |   | Improve Community Focus                                                                                                                            |
| 2  | Customer engagement                   | ✓ |   |   |   | Improve Customer and Community Understanding                                                                                                       |
| 3  | Customer outcomes                     | ✓ | ✓ | ✓ |   | Improve Customer Experience;<br>Several objectives relating to the "Delivering Sustainable, Resilient and Valued Services" strategic priority area |
| 4  | Community                             | ✓ | ✓ |   | ✓ | Increase Stakeholder Value; Increase Community Trust;<br>Improve Customer and Community Understanding;<br>Improve Community Focus                  |
| 5  | Environment                           |   | ✓ |   |   | Improve Circular Economy; Reduce Wastewater Overflows;<br>Improve Future Thinking                                                                  |
| 6  | Choice of services                    | ✓ |   |   |   | Improve Customer Experience                                                                                                                        |
| 7  | Robust costs                          |   | ✓ | ✓ |   | Improve Efficiency and Effectiveness of our Services                                                                                               |
| 8  | Balance of risk and LT performance    | ✓ | ✓ | ✓ |   | Improve Efficiency and Effectiveness of our Services                                                                                               |
| 9  | Commitment to improve value           |   |   | ✓ | ✓ | Improve Efficiency and Effectiveness of our Services                                                                                               |
| 10 | Equitable and efficient cost recovery | ✓ |   |   |   | Increase Community Trust                                                                                                                           |
| 11 | Delivering                            | ✓ |   |   | ✓ | Increase Community Trust                                                                                                                           |
| 12 | Continual improvement                 |   |   | ✓ |   | Improve New Ways of Working (Continuous Improvement and Innovation)                                                                                |

Why should a  
business work  
towards advanced  
and leading  
proposals?

## Doing so will deliver better outcomes for customers

- Shows genuine commitment to delivering customer value
- Builds trust and reputation
- Leads to more ownership and autonomy
- Allows flexibility and room for innovation
- Improved alignment between the interests of all parties

# Open discussion

