

# Water Regulation Draft Handbook - Response Paper

4 April 2023

## 1 We have published the Water Regulation Handbook

Thank you to the stakeholders who engaged in the consultation process and provided submissions to the Water Regulation Draft Handbook (**Draft Handbook**) and draft information return. We have used stakeholder feedback to finalise the Water Regulation Handbook (**Handbook**) and have published it on our website.

This paper outlines the key themes raised by stakeholders and our response to these matters in relation to the Handbook only. It does not address stakeholder feedback on the draft information return, which we will finalise and publish later this year.

## 2 Background

IPART regulates the price and performance of several NSW water businesses. We recently reviewed how we regulate water businesses and developed the 3Cs framework which focuses on customers, costs, and credibility. We released the Draft Report and Draft Technical Paper for stakeholder consultation in May 2022. We released the final report package comprising the Final Report, Final Technical Report and Final Incentives Paper in November 2022.

One of the outcomes of the review was a commitment to consult with stakeholders to develop a Handbook. The Handbook guides water businesses in preparing their pricing proposals and explains the key elements of our regulatory approach. We will update the Handbook over time as we learn lessons from implementing the 3Cs framework. We will also review the Handbook and the 3Cs framework after the first round of price reviews.

## 3 Consultation process

We published the Draft Handbook and draft information return on our website on 21 December 2022. We invited water businesses and other interested stakeholders to provide written submissions by 17 February 2023. We provided extensions to some stakeholders to provide their feedback.

Our objective was to obtain feedback on the level of guidance for the 3Cs framework provided in the Draft Handbook.

We received submissions and correspondence from water businesses, government agencies and industry groups. The submissions are available on our [website](#). The key themes and our responses are outlined in section 4 below.

## 4 Response to stakeholder feedback

| Stakeholder feedback   | IPART response  |
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| <b>1. General feedback</b>   |   |
| <ul style="list-style-type: none"> <li>• <b>Hunter Water submission to Draft Handbook, p. 1:</b> Hunter Water stated the Handbook is a high quality document that strikes the right balance between expectations and details.</li> <li>• <b>WaterNSW submission to Draft Handbook, pp. 3-4:</b> WaterNSW endorsed the new framework and guidance in the Handbook but commented some aspects of the implementation are unclear.</li> <li>• <b>Essential Water submission to Draft Handbook, p. 1:</b> Essential Water was supportive of the new framework and found the Handbook provided comprehensive information.</li> </ul> |   |
| <b>2. Checklist/summary</b>  |   |
| <ul style="list-style-type: none"> <li>• <b>Essential Water submission to Draft Handbook, p. 1:</b> Essential Water was supportive of the 3Cs framework and level of detail. However, the Handbook could benefit from a summary table of expectations to serve as a checklist and reference.</li> <li>• <b>Sydney Water submission to Draft Handbook, p. 2:</b> Sydney Water stated it would be helpful to provide a consolidated list of requirements.</li> </ul>   | <ul style="list-style-type: none"> <li>• We considered these suggestions but have decided not to provide a checklist or summary table as we want to avoid a prescriptive approach. However, we have inserted Figure 4.1 in Chapter 4 to provide a visual overview of the framework.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>Central Coast Council submission to Draft Handbook, pp. 6-8:</b> Central Coast suggested some structural changes to the Handbook and to provide instructions on how to use the Handbook and setting out the key objectives of each chapter.</li> <li>• <b>EWON submission to Draft Handbook, p 2; Hunter Water submission to Draft Handbook, p. 1:</b> However, EWON and Hunter Water commented that the Handbook provided a clear structure to enable water businesses to prepare pricing proposals.</li> </ul>   | <ul style="list-style-type: none"> <li>• We considered Central Coast's feedback together with other stakeholder views. We noted that some stakeholders supported the current drafting and other stakeholders had not provided feedback on this issue. While we have clarified certain aspects of our guidance, we have decided not to make any changes to the structure or layout of the Handbook.</li> </ul> |
| <b>3. Customer engagement</b>  |   |
| <ul style="list-style-type: none"> <li>• <b>EWON submission to Draft Handbook, pp. 2-3:</b> EWON was supportive of the focus on customer centricity in the 3Cs framework and considered the Draft Handbook provided clear guidance to water businesses. It suggested that water businesses should develop customer reference groups to gain new insights and contribute to better customer outcomes.</li> </ul>  | <ul style="list-style-type: none"> <li>• While customer reference groups can provide useful insights, we consider that water businesses are best placed to develop their customer engagement strategy. Some water businesses are using a range of stakeholder engagement methods. Therefore, we have not provided further guidance on this point.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>SDP submission to Draft Handbook, p. 1:</b> SDP noted it only has one customer (Sydney Water) and does not directly interact with end-use customers. SDP sought clarification on our expectations of customer engagement having regard to their circumstances.</li> </ul>  | <ul style="list-style-type: none"> <li>• We expect SDP to develop and base its pricing proposal around a strong understanding of its customers (both direct and end-use customers) including their preferences and willingness to pay for services. This understanding can be developed independently and/or in collaboration with Sydney Water.</li> </ul>   |

| Stakeholder feedback   | IPART response   |
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| <ul style="list-style-type: none"> <li>• <b>DPE/NRAR letter to IPART, p. 2:</b> DPE/NRAR requested that we provide WAMC-specific guidance and provide guidance around our expectations for engaging customers. It also noted NRAR risks regulatory capture if it establishes pricing proposals primarily based on water user feedback.</li> </ul>  | <ul style="list-style-type: none"> <li>• We acknowledge that SDP and NRAR have unique circumstances. However, we have not provided SDP or WAMC-specific guidance for customer engagement in the Handbook as we consider that water businesses are best placed to identify the scope and needs of its customer base.</li> <li>• We noted in the Handbook that there is no one-size-fits-all approach and customer engagement is context-dependent for each business.</li> <li>• While we acknowledge NRAR's concerns, we have not provided NRAR-specific guidance for customer engagement in the Handbook. We do not consider that the risk of regulatory capture would mean that NRAR is unable to engage with its customers to establish a pricing proposal.</li> </ul> |
| <ul style="list-style-type: none"> <li>• <b>Central Coast Council submission to Draft Handbook, p. 6:</b> Central Coast found the case studies were helpful in illustrating expectations of businesses. It sought clearer definitions of 'community' and 'customer'.</li> <li>• <b>Hunter Water submission to Draft Handbook, p. 1.1:</b> Hunter Water found the use of case studies were effective in communicating expectations about customer engagement.</li> <li>• <b>Sydney Water submission to Draft Handbook, p. 2:</b> Sydney Water sought clarification on whether the 'customer engagement strategy' and 'customer engagement plan' are references to the same document.</li> </ul> | <ul style="list-style-type: none"> <li>• We have updated the Handbook to further clarify the distinction between the terms 'community' and 'customer'.</li> <li>• We have updated the Handbook to ensure our terminology is consistent.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• <b>UDIA submission to Draft Handbook, p. 1:</b> UDIA considered the Handbook's definition of 'customer' focuses on the end user. It noted there are other customers, such as developers, that rely on timely works and servicing. It recommended that the definition of 'customer' be further expanded to include all end users including developers.</li> </ul>  | <ul style="list-style-type: none"> <li>• In section 3.2 of the <a href="#">Final Report</a>, we explained how we made clarifications to the customer principles. We broadened the definition of a 'customer' to include direct bill payers and other users of the water service.</li> </ul>  |
| 4. Pre-review process  |  |
| <ul style="list-style-type: none"> <li>• <b>WaterNSW submission to Draft Handbook, p. 9:</b> WaterNSW supports pre-reviews to streamline expenditure reviews but recommends it should occur mid-determination period.</li> <li>• <b>DPE/NRAR letter to IPART, p. 1:</b> DPE/NRAR suggested we provide more information about the timeframes and triggers for conducting systems and processes reviews prior to the pricing proposals being submitted.</li> </ul>   | <ul style="list-style-type: none"> <li>• We considered suggestions from stakeholders to amend our guidance but have decided not to prescribe the timing of pre-reviews in the Handbook, as we require flexibility around timing to undertake this process.</li> <li>• The Handbook indicates that we are mindful that the review needs to be conducted to allow businesses time to address recommendations from the systems and pricing review in their pricing proposal. We have added that we will consult with the business about the appropriate timing of the review.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>UDIA submission to Draft Handbook, p. 2:</b> UDIA considers there needs to be more external review of asset management.</li> </ul>   | <ul style="list-style-type: none"> <li>• The Handbook indicates we may conduct a systems and process review in advance of the next pricing review, depending on whether we identified any areas of concern from our previous review. This may involve reviewing asset management systems.</li> </ul>   |

| Stakeholder feedback  | IPART response   |
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| <b>5. Overall review process</b>  |  |
| <ul style="list-style-type: none"> <li>• <b>Essential Water submission to Draft Handbook, p. 1:</b> Essential Water commented that smaller water businesses are less equipped to meet expectations in the Handbook.</li> <li>• <b>SDP submission to Draft Handbook, p. 3:</b> SDP noted that it has unique asset and service characteristics which should be considered under the new framework.</li> <li>• <b>Central Coast Council submission to Draft Handbook, p. 6:</b> Central Coast requested more information about the assessment process and assurances that expectations of smaller business reflect their size.</li> </ul>  | <ul style="list-style-type: none"> <li>• We acknowledge that water businesses have different circumstances. We state in the Handbook that the evidence to substantiate a grading of the pricing proposal depends on the size and type of services provided by the business.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• <b>SDP submission to Draft Handbook, pp. 2-3:</b> SDP recommended that we transparently consider when and where we intend to standardise or tailor elements of the 3Cs framework.</li> </ul>   | <ul style="list-style-type: none"> <li>• We have updated section 2.2.4 of the Handbook to clarify that applying a more standardised approach to cost in the initial stages would enable us to tailor our approach in the expenditure review.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>UDIA submission to Draft Handbook, p. 2:</b> UDIA stated that a 9-month review from IPART is too long, as it creates the risk that decisions will be out of date by the time they are made.</li> </ul>  | <ul style="list-style-type: none"> <li>• We consulted with stakeholders on the 9-month review timeframe and included it as a decision in section 5.1 of the <a href="#">Final Technical Report</a>. We have retained this approach as the aim of the Handbook is to provide more guidance on how we plan to conduct reviews within this timeframe.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>WaterNSW submission to Draft Handbook, p. 8:</b> WaterNSW suggested that the criteria for streamlined ex-post capital expenditure review should be closer to the National Electricity Rules.</li> </ul>   | <ul style="list-style-type: none"> <li>• We have not updated our criteria for streamlined ex-post capital expenditure reviews in the Handbook. We set out the criteria in Box 3 of section 3.4 of the <a href="#">Draft Report</a> and Box 2 of section 4.4 of the <a href="#">Final Report</a>, and did not receive any feedback from stakeholders on it. The aim of the Handbook is to implement the 3Cs framework in the form outlined in the Final Report.</li> </ul>                              |
| <b>6. Assessment criteria</b>   |  |
| <ul style="list-style-type: none"> <li>• <b>DPE/NRAR letter to IPART, p. 1:</b> DPE/NRAR sought more detail on how IPART will assess the quality of pricing proposals, particularly how it treats focus principles and assessment criteria.</li> </ul>  | <ul style="list-style-type: none"> <li>• In section 2.2 of the Handbook, we discuss how we will assess the quality of a pricing proposal. While we understand water business would benefit from further guidance, we made a strategic decision to keep these items at a sufficiently high-level to encourage businesses to put forward their best (most ambitious) proposal. We have not included additional detail in the Handbook.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>Hunter Water submission to Draft Handbook, pp. 1.4-1.7:</b> Hunter Water asked questions about specific parts of the grading rubric we are using to assess pricing proposals:             <ol style="list-style-type: none"> <li>(a) Does it need to undertake a cost-benefit analysis on its whole pricing proposal to demonstrate quantifiable increases in customer value?</li> <li>(b) What is meant by "include adequate protections for individual customers" to customer value for the Advanced grade for performance measures under customer outcomes? How are step changes improvements to customer value measured?</li> <li>(c) What does it mean to consider the impact of climate change on the level and structure of prices?</li> </ol> </li> </ul> | <ul style="list-style-type: none"> <li>• We have set out our response to these queries as follows:             <ol style="list-style-type: none"> <li>(a) We do not envisage water businesses would undertake a cost-benefit analysis on the whole pricing proposal. We have updated wording in section 4.8.2 of the Handbook to make it clear the discussion around providing quantitative evidence relates to demonstrating the step change in customer value above Standard.</li> </ol> </li> </ul> |

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| <ul style="list-style-type: none"> <li>(d) What does it mean for proposed prices to be 'sustainable over time' in relation to the Advanced grade for cost-reflective prices under equitable and efficient cost recovery?</li> <li>(e) Allowing 'TBA' targets and a commitment to undertake the analysis in a reasonable time would be helpful for each customer outcome measure under the performance measure criteria.</li> <li>(f) Demonstrating organisational resilience to absorb cost impacts under the Advanced grade for risk and long-term performance is an unclear and subjective expectation.</li> <li>(g) Difference in descriptions between the Advanced and Leading grades for customer outcomes implies financial ODIs are superior.</li> </ul> | <ul style="list-style-type: none"> <li>(b) We have not provided additional guidance in the Handbook as we consider the water business is best placed to determine what protections will be adequate. An improvement in performance above the Standard grade should reflect a tangible increase of customer value. We have not provided a numeric requirement on the 'value' as it is difficult to measure but a water business must show they are delivering a genuine improvement in customer value qualitatively and quantitatively.</li> <li>(c) Regulated businesses would ensure that short-, medium- and long-term impacts of climate change on services and costs have been considered. For instance, this may include the impact on the reliability and availability of existing or traditional water storages, changes in system performance and costs arising from peak demand changes, or changes to design standards arising from greater weather variability.</li> <li>(d) Proposed prices would be considered sustainable over time if a water business is able to demonstrate that it does not have artificially low prices. A Water business must ensure their depreciation schedule is correct.</li> <li>(e) Water businesses may provide 'TBA' targets for its customer outcome measure if it can provide evidence to justify this conclusion.</li> <li>(f) We would anticipate that the business would have examined the impacts of certain cost or revenue shock scenarios, and examined how it might structure its business, prices or services.</li> <li>(g) We have updated the grading rubric in Appendix B of the Handbook to clarify that we would typically expect all important customer outcomes with high customer value are supported by ODI payment/penalty rates and targets.</li> </ul> |
| <ul style="list-style-type: none"> <li>• <b>UDIA submission to Draft Handbook, p. 1:</b> UDIA questioned whether self-assessment by the businesses was transparent and just. Industry and consumers should have an opportunity to provide input in the original submission.</li> <li>• <b>UDIA submission to Draft Handbook, p. 2:</b> UDIA considered the grading detail includes targets, benchmarks, tasks, and milestones that are all set by the business subject to their circumstances. There should be external contribution to setting targets which need to be monitored by an external independent party, rather than solely the business in question.</li> </ul>  | <ul style="list-style-type: none"> <li>• The self-assessment by water business is only one step in the process. We will assess the pricing proposal in our function as regulator of water businesses to determine if we agree with a water business's grading of its pricing proposal.</li> <li>• The Handbook also provides extensive guidance on how water businesses should be engaging with their customers and other stakeholders in preparing their pricing proposal, including when setting outcomes. For example, see section 3.1. We expect water businesses to engage with its customers in its long-term planning to inform and feed into the development of the pricing proposal to ensure that it promotes the long-term interests of customers.</li> </ul>  |
| <h2>7. Focus principles</h2>  |   |
| <ul style="list-style-type: none"> <li>• <b>WaterNSW submission to Draft Handbook, pp. 6-7:</b> WaterNSW commented that the role of focus principles is unclear given they are not weighted in the self-assessment grading process.</li> <li>• <b>Central Coast Council submission to Draft Handbook, p. 6:</b> Central Coast suggested that we should provide more guidance about the assessment process and criteria for assessing focus principles.</li> </ul>   | <ul style="list-style-type: none"> <li>• We have updated section 2.2.1 of the Handbook to clarify the purpose and value of focus principles, as well as noting that the focus principles may change over time and that there may be some principles that are less important.</li> </ul>   |

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| <b>8. Long-term investment plan</b>   |  |
| <ul style="list-style-type: none"> <li>• <b>Sydney Water submission to Draft Handbook, p. 1:</b> Sydney Water sought further clarification of our expectations for the long-term investment plan and the type of inputs that inform the plans.</li> <li>• <b>Central Coast Council submission to Draft Handbook, pp. 7-8:</b> Central Coast sought further guidance on our expectations, required evidence and inputs.</li> </ul>   | <ul style="list-style-type: none"> <li>• While we acknowledge that water businesses are seeking further guidance, we consider that the overview of the various inputs we would expect to see in long-term investment plans in section 3.2 of the Handbook to be sufficient. We have not provided further guidance on the type of inputs as it would make the Handbook discussion overly prescriptive.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• <b>Hunter Water submission to Draft Handbook, p. 1.1:</b> Hunter Water questioned the benefit of combining all services into a single long-term plan. Instead of using a single long-term investment plan, Hunter Water is developing several long-term strategies and plans that cover various assets or outcomes.</li> </ul>   | <ul style="list-style-type: none"> <li>• We have clarified in section 3.2 of the Handbook that we are not mandating a specific format for long-term planning. If a business sees there are benefits in multiple, interlinked documents rather than a single plan, that may be appropriate. However, it needs to be presented to us in a form we can review.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• <b>UDIA submission to Draft Handbook, p. 2:</b> UDIA stated that more emphasis is needed on flexible up-front planning approaches due to slow nature of bureaucracy and long lead time for water servicing.</li> </ul>   | <ul style="list-style-type: none"> <li>• We understand the concerns raised in UDIA's submission. We have built in flexibility for long-term planning into our framework. This will allow water businesses to continually update their plans with new information and respond to evolving customer preferences, new conditions, and risks.</li> </ul>   |
| <b>9. Incentive schemes</b>   |  |
| <ul style="list-style-type: none"> <li>• <b>SDP submission to Draft Handbook, p. 3:</b> SDP stated the design of the efficiency benefits sharing scheme (EBSS) would have to be amended before it can be applied. SDP noted its required levels of output and efficient operating expenditure can vary significantly.</li> </ul>  | <ul style="list-style-type: none"> <li>• SDP may choose to propose amendments to the EBSS in its pricing proposal to make the scheme relevant to its operations.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>Essential Water submission to Draft Handbook, p. 1:</b> Essential Water sought clarification on how the benefit for the previous regulatory period will be treated when the scheme is newly applied.</li> </ul>   | <ul style="list-style-type: none"> <li>• We have updated section 6.3.2 of the Handbook to clarify that the reward or penalty amount is converted into a real annuity. Each instalment is then added to or subtracted from the revenue requirement for each year of the following period.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>Central Coast Council submission to Draft Handbook, p. 3:</b> Central Coast sought clarification on how certain aspects of the incentives schemes work and are assessed. For example, how penalties for incorrect assessments applied.</li> </ul>   | <ul style="list-style-type: none"> <li>• We have updated sections 6.4, 6.5 and 6.6 of the Handbook outlining the key features and provided an overview of how each scheme works.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>Central Coast Council submission to Draft Handbook, p. 4:</b> Central Coast commented that the Handbook does not provide sufficient information as to how efficiency gains will be shared between the business and its customers.</li> <li>• <b>Central Coast Council submission to Draft Handbook, p. 10:</b> Central Coast asked if the schemes accommodate the erosion of cost efficiencies during the determination period and what the impacts are in relation to the sharing ratio between the business and the customer.</li> <li>• <b>Central Coast Council submission to Draft Handbook, pp. 9-10:</b> Central Coast sought clarification on how uncontrollable climate impacts on performance outcomes, such as flooding, or drought, are accounted for in the application of the ODI.</li> </ul> | <ul style="list-style-type: none"> <li>• Under the incentive schemes, the business retains a 20% share of the benefit or penalty (in NPV terms) of an efficiency gain or loss first, before passing the remaining 80% through to the customer. This way, risks and rewards are shared in a fixed ratio between businesses and customers. We will explain how the schemes are intended to work using the examples provided by Central Coast during our early engagement with it. We will also update the Handbook if the feedback we provide to Central Coast has wider relevance.</li> </ul> |

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| <ul style="list-style-type: none"> <li>• <b>Hunter Water submission to Draft Handbook, p 1.5:</b> Hunter Water noted the information it may use to set ODI reward and penalty rates may include marginal cost or benefit transfer analysis.</li> </ul>  | <ul style="list-style-type: none"> <li>• We are open to different types of information being used to identify customer preferences. This includes marginal cost or benefit transfer analysis, provided it meets our key principles. That is, the information needs to be unbiased, up-to-date and accurate. Further, it should consider, or weight, a range of appropriate estimates, and be verifiable.</li> </ul>              |
| <b>10. Cost share review</b>  |  |
| <ul style="list-style-type: none"> <li>• <b>WaterNSW submission to Draft Handbook, pp. 9-10:</b> WaterNSW suggested that IPART should conduct a separate 'limited' cost share review focusing on issues identified by WaterNSW's stakeholders. WaterNSW considers this is the best way to demonstrate transparency, fairness, and independence.</li> </ul>  | <ul style="list-style-type: none"> <li>• We understand WaterNSW to be advocating for IPART to run the cost share review but base it on WaterNSW's customer engagement. While we can discuss it further with WaterNSW as part of early engagement, our view is that this would put the focus back onto IPART. Instead, we want WaterNSW to develop a proposal around cost shares based on its analysis and engagement.</li> </ul> |
| <b>11. Early engagement</b>   |  |
| <ul style="list-style-type: none"> <li>• <b>DPE/NRAR letter to IPART, p. 1:</b> DPE/NRAR commented that the purpose and benefits of early engagement are unclear. DPE/NRAR suggested providing more detail on the benefits, how the process factors into the review process and examples of what commitments IPART can make.</li> <li>• <b>WaterNSW submission to Draft Handbook, pp. 4-5:</b> WaterNSW was supportive of the 3Cs framework and more structured relationship between IPART and water businesses as part of the early engagement framework.</li> </ul> | <ul style="list-style-type: none"> <li>• We will communicate directly with our counterparts at DPE/NRAR to clarify the purpose of early engagement.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• <b>Hunter Water submission to Draft Handbook, p. 1.2:</b> Hunter Water indicated it is keen to work with IPART to establish expectations about the scope and content of supporting documents. It also has questions on practical details of the 3Cs framework. For example, forecasting digital operating expenditure and the best way to present major movements in input prices.</li> </ul>  | <ul style="list-style-type: none"> <li>• We plan to address these issues during early engagement with Hunter Water. We may update aspects of the Handbook to ensure all utilities are given similar guidance on using early engagement to work through detailed issues.</li> </ul>   |
| <b>12. Modelling</b>  |  |
| <ul style="list-style-type: none"> <li>• <b>WaterNSW submission to Draft Handbook, p. 10:</b> WaterNSW commented that predictive modelling or benchmarking is not appropriate for forecasting capital expenditure. WaterNSW have suggested developing a mutually acceptable methodology for top-down expenditure forecast checking.</li> <li>• <b>SDP submission to Draft Handbook, p. 4:</b> SDP commented there was limited opportunity to apply benchmarking and there are no comparable water businesses.</li> </ul>  | <ul style="list-style-type: none"> <li>• We indicated in section 6.2 of the <a href="#">Final Report</a> we would develop predictive modelling and benchmarking as tools to use during our price reviews. We have clarified in the Handbook that we are using these tools to undertake water business models and sensibility checks.</li> </ul>  |
| <b>13. Non-regulated activities</b>   |  |
| <ul style="list-style-type: none"> <li>• <b>Sydney Water submission to Draft Handbook, p. 2:</b> Sydney Water suggested excluding mandated unregulated recycled water schemes and other unregulated activities.</li> </ul>  | <ul style="list-style-type: none"> <li>• We have excluded non-regulated activities in the Handbook and information return.</li> </ul>  |



| Stakeholder feedback  | IPART response  |
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| <b>14. Risk mitigation</b>  |   |
| <ul style="list-style-type: none"> <li>• <b>SDP submission to Draft Handbook, p 3:</b> SDP commented that there is little discussion about the circumstances of using cost pass-throughs and true-ups.</li> </ul>   | <ul style="list-style-type: none"> <li>• We consider the detail on principles and the decision tree in Figure 5.2 of Chapter 5 of the Handbook to be sufficient. The discussion about exceptional circumstances is intended to highlight that the principles set a high threshold to trigger the risk mitigation measure.</li> </ul>  |
| <ul style="list-style-type: none"> <li>• <b>UDIA submission to Draft Handbook, p 2:</b> UDIA stated that, to ensure economic cycles and impacts are considered and accounted for, there needs to be more flexibility in the process to adapt as need be in the contemporary climate.</li> </ul>   | <ul style="list-style-type: none"> <li>• Chapter 5 of the Handbook sets out a range of risk mitigation measures available to water businesses under the 3Cs framework. We will also consider certain tools and adjustments in specific circumstances where a water business is able to justify use of these measures. We consider that this suite of measures provide water businesses with sufficient flexibility to manage revenue risks.</li> </ul>  |
| <b>15. 50:50 sharing ratio</b>  |   |
| <ul style="list-style-type: none"> <li>• <b>WaterNSW submission to Draft Handbook, pp. 10-11:</b> WaterNSW suggested applying a 50:50 sharing ratio of revenues for small projects by default.</li> </ul>   | <ul style="list-style-type: none"> <li>• We have not updated the Handbook. We note WaterNSW previously raised this point in its submission to the Draft Report. In section 5.4 of the <a href="#">Final Technical Report</a>, we decided on a 50:50 profit share by default and exceptions on a case-by-case basis if we consider it to be material.</li> </ul>   |
| <b>16. Base-trend-step</b>  |   |
| <ul style="list-style-type: none"> <li>• <b>WaterNSW submission to Draft Handbook, p. 9:</b> WaterNSW have sought clarification as to how the base-trend-step assessment process has changed from IPART's previous methodology.</li> </ul>  | <ul style="list-style-type: none"> <li>• We consider the best forum to work through this query is in early engagement with WaterNSW.</li> </ul>   |
| <b>17. Board endorsement</b>  |   |
| <ul style="list-style-type: none"> <li>• <b>Sydney Water submission to Draft Handbook, p. 1; Hunter Water submission to Draft Handbook, p. 1.4:</b> Sydney Water and Hunter Water both questioned the purpose of a stand-alone Board-approved cost efficiency strategy as opposed to including it in a Board-approved pricing proposal.</li> </ul>  | <ul style="list-style-type: none"> <li>• The rationale for the stand-alone Board-approved cost efficiency strategy is to draw the Board's attention to this issue.</li> </ul>   |
| <b>18. Pricing</b>  |   |
| <ul style="list-style-type: none"> <li>• <b>Hunter Water submission to Draft Handbook, pp. 1.2-1.3:</b> Hunter Water commented on a number of issues:             <ol style="list-style-type: none"> <li>(a) Expectation on water businesses to engage customers on their price structure implies a need to engage, irrespective of customer interest and materiality. It seeks flexibility on how to engage on price structures. Further, for the form of price control, Hunter Water expects there will be sufficient flexibility for water businesses to propose the appropriate method of engagement and seek feedback from the Secretariat or Tribunal.</li> </ol> </li> </ul> | <ul style="list-style-type: none"> <li>• We have set out our response to these queries as follows:             <ol style="list-style-type: none"> <li>(a) Water businesses are best placed to determine when and how it would be appropriate to engage with its customers on price structures and forms of price control. In Hunter Water's submission, it indicated it had already undertaken customer engagement on price structures relatively recently. It would then be relevant for it to consider whether customers raise price structures during its engagement for the upcoming price review.</li> </ol> </li> </ul> |

**Stakeholder feedback**

- (b) Impacts on bills and affordability has several dimensions. It interprets the guidance as providing scope to consider and propose measures or prices that address these concerns for vulnerable customers, if it has support from the broader customer base.

**IPART response**

- (b) There is scope to explore these alternatives for addressing affordability. We can provide Hunter Water with additional guidance during the early engagement process. We may update the Handbook if this has wider application.

**19. Other issues**

- **Hunter Water submission to Draft Handbook, p. 1.2:** Hunter Water requested further guidance on the scope and content of supporting documents and the best way to reference this information in its pricing proposal.
  - We will address these issues during the early engagement process with Hunter Water. We will also update the Handbook if the feedback we provide to Hunter Water has wider relevance.
- **Central Coast Council submission to Draft Handbook, p. 3:** Central Coast sought clarification as to whether the Handbook supersedes IPART's Guidelines for Water Agency Pricing Submission.
  - The Handbook supersedes the Guidelines, as per section 1.1.4 of the Handbook.
- **Central Coast Council submission to Draft Handbook, p.4:** Central Coast noted that definitions for certain terms were missing from the glossary. For example, accelerated depreciation and annuities).
  - We have inserted these definitions into the glossary of the Handbook.