

5 February 2019

WHAT

IPART has released a Final Report for its review looking into how the efficient costs of the Water Administration Ministerial Corporation's (WAMC's) water management services and WaterNSW's rural bulk water services are shared between customers and the NSW Government (on behalf of the broader community).

WHY

We undertook this review to consider cost shares for both WAMC and WaterNSW concurrently and outside a price review.

The outcomes of this review will not affect current prices, but will provide a starting point to inform the upcoming price reviews for WAMC (commencing 1 July 2019, for prices to take effect from 1 July 2020) and WaterNSW Rural (commencing 1 July 2020, for prices to take effect from 1 July 2021).

HOW

The Final Report largely maintains the draft decisions outlined in our Draft Report. These include:

- ▼ Clarifying our cost sharing principles
- ▼ Maintaining our activity-based cost sharing framework and not adopting an alternative service-based framework.
- ▼ Revising cost share ratios for several activities based on our application of

the impactor pays principle (ie, those that create the need to incur a cost should pay for that cost).

- ▼ That we will consider further improvements to the cost share framework, including valley-specific cost share ratios and whether different customer groups impact costs differently, at the next price reviews for WAMC and WaterNSW.

We have calculated illustrative impacts based on the existing allocation of costs to activities over a four year period. These indicate our revisions to cost share ratios would:

- ▼ Increase the customer share of WAMC's costs from 76% to 84%.
- ▼ Increase the customer share of WaterNSW's costs from 83% to 84%.

These impacts are illustrative only. They do not factor in the **level** of costs that will underpin the next price determinations for WAMC and WaterNSW. IPART will subject these costs to consultation and prudence and efficiency assessments at price reviews. Before setting prices, IPART will also consider other factors – including potential impacts on customers and other parties.

WHAT NEXT

This Report presents the customer cost shares that we plan to apply at the 2019-2020 WAMC and 2020-2021 WaterNSW Rural price reviews.

We will invite stakeholder submissions to these price reviews at various stages of the decision-making process, including consultation on customer cost shares.