



Independent Pricing and Regulatory Tribunal

Guidelines for Water Agency Pricing Submissions

Water — Guidelines
April 2011



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Inquiries regarding this document should be directed to a staff member:

Richard Warner (02) 9290 8406

Alex Kelty (02) 9290 8499

Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290, QVB Post Office NSW 1230
Level 8, 1 Market Street, Sydney NSW 2000
T (02) 9290 8400 F (02) 9290 2061
www.ipart.nsw.gov.au

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1 Introduction

The Independent Pricing and Regulatory Tribunal (IPART) sets the maximum prices that water agencies can charge for their monopoly services. In determining these prices, IPART uses public and transparent processes which involve releasing an Issues Paper, inviting submissions, holding public hearings, and releasing a draft Report for comment.

The *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act) provides limited guidance on the form or content of a submission to IPART. However, the IPART Act does require that a submission from a government agency include a statement on how the prior determination has been implemented, and if not, the reasons why it has not been implemented.¹

The *Guidelines for Water Agency Submissions* (the Guide) has been developed to assist a water agency in preparing a submission to a pricing review. These guidelines were developed in response to a project undertaken by IPART and approved by the Tribunal to improve information provision from regulated entities.

The aims of the Guide are to ensure that IPART's processes, our expectations regarding information provision and the entities' responsibilities are made as clear as possible. While IPART encourages agencies to use this Guide, they can provide submissions in any format they wish so long as they address the minimum requirements in this Guide.

This Guide is structured as follows:

- ▼ Chapter 1 provides background information and explains why a guide is needed
- ▼ Chapter 2 lists the matters that an agency's submission is required to address, as a minimum
- ▼ Chapter 3 contains a checklist of the requirements for an agency's submission.

1.1 The purpose of this Guide

This Guide explains the minimum information requirements for water agencies to address in their submissions to price reviews. Additional requirements may be specified in the Issues Paper for a review or in correspondence to the agency concerned.

As part of a pricing review, IPART is required under section 15 of the IPART Act to have regard to specific matters and show what regard it has had to them. It will therefore benefit an agency to support its proposals with reference to these matters. Section 15 of the IPART Act is provided in Appendix A.

¹ Section 18(5) of the *Independent Pricing and Regulatory Tribunal Act 1992*.

An agency's submission to a price review needs to publicly explain, justify and document its proposed prices for the monopoly services that it provides. The submission should provide stakeholders with a clear understanding of the agency's pricing proposals as well as providing IPART with sufficient information to analyse and review these proposals.

In developing their submission, an agency should consider the needs of different stakeholders that are likely to consider their submission or have an interest in the matters under investigation. For example, the general public may be interested in future prices and the impacts of these on them; non-government organisations could be concerned with impacts on vulnerable customer groups or the environment; government departments may be interested in the funding of particular capital expenditure programs. The needs of stakeholders are likely to change for each pricing review.

A well argued and comprehensive pricing submission from a water agency should allow stakeholders and IPART to review the agency's pricing proposals in a timely manner.

If IPART considers that an agency's submission does not contain sufficient information to allow the Tribunal to carry out its functions or allow effective stakeholder participation, it may decide to return the submission to the agency and/or 'stop the clock' on the review until adequate information is provided. An inadequate or incomplete submission by an agency not only adds to the work of IPART, its staff and consultants, but also limits the ability of stakeholders to participate in and provide effective input into IPART's processes.

Prior to the commencement of a pricing review, IPART will specify process rules for the water agencies and IPART. These rules will explain what is to be provided and when, and the course of action that IPART would take should information be inaccurate, late or incomplete.

1.2 The relationship between an agency's submission and its information returns

A water agency's submission to a pricing review is a public document that needs to include sufficient information to enable stakeholders to obtain a clear understanding of what is proposed and what the implications of the proposals are. A clear and transparent submission is a necessary pre-requisite to enable stakeholders to effectively participate in IPART's processes.

A number of matters in this Guide may also be included in an agency's information return to IPART. For example, a metropolitan water agency submits an Annual Information Return and Special Information Return which provides details of the operating and capital expenditure programs. However, unlike an agency's pricing submission, these information returns are generally not public documents but are subject to the *Government Information (Public Access) Act 2009*. Therefore, an agency's submission should include all information necessary for informed public participation in the inquiry process, even if this information has been submitted to IPART in an information return.

Further, it is critical that the information contained in an agency's submission reconcile with the data it has submitted to IPART as part of an information return. IPART now requires that the submission, information returns and any other materials provided by the agency will be subject to an external quality assurance check before they are submitted to IPART. These requirements are explained in section 2.15 of this Guide.

2 The required contents of a pricing submission

This section explains IPART's minimum requirements for a water agency's submission to a pricing review.

2.1 Executive Summary

An agency's submission should include an Executive Summary, which outlines and brings together the key elements of the agency's pricing proposals, including:

- ▼ a description of the activities covered by the monopoly services order
- ▼ the agency's proposed prices and the rationale for proposed price levels and structures (with reference to existing price levels and structures)
- ▼ a summary of the agency's proposed changes (in comparison to the current determination) for the upcoming determination
- ▼ the agency's forecast operating and capital costs, including the main drivers of or reasons for any proposed cost/price increases
- ▼ the impact of the agency's pricing proposal on:
 - customers, including measures to mitigate any adverse social impacts
 - the agency's performance (including service standards) and its financial position.
- ▼ any major changes in the operating environment since the last review that have brought about the need for change.

2.2 The agency's role and functions

An agency should clearly outline and describe its roles and responsibilities over the current and upcoming pricing periods, including:

- ▼ the legislative framework in which it operates, including key legislative requirements, objectives and determinants of performance
- ▼ each of the agency's IPART regulated (or 'monopoly') services
- ▼ the area or areas of each service, customer types and customer numbers (by service, service area and customer type)²
- ▼ any other services provided by the agency, which are not subject to IPART regulation

This section provides the context and supporting information for the rest of the submission.

² The agency's service area(s) and customer types should relate to its actual tariffs (over the current determination period) as well as its proposed tariffs for the upcoming determination period.

2.3 Performance over the current determination period

An agency's submission should report on its performance over the current determination period. This should describe the activities carried out and services delivered by the agency, including the quantity, quality and scope of activities and services (by type of service and service area).

The submission should also identify, explain the reasons for, and discuss the implications of any variations to the following areas discussed below.

2.3.1 Service levels

- ▼ Service levels forecast at the current price determination and actual service levels achieved over this period.
- ▼ Summarise the agency's performance against output measures or any other performance measures set by IPART at the last determination. For example, the metropolitan water agencies are required to report annually on a number of specific output measures for water, wastewater and stormwater services.
- ▼ If standards of service have not been achieved (eg, non-compliance with system performance standards or other obligations in an Operating Licence) or output measures have not been met, then the reasons why need to be explained.
- ▼ Overview of the number and type of complaints that the agency has received in relation to its IPART regulated services and charges over the determination period.

2.3.2 Revenue

- ▼ Overview of 'target' revenue set by IPART at the current price determination and actual revenue received for each year over this period.
- ▼ Agency to explain whether it expects to under or over recover revenues for the current determination period.

2.3.3 Sales and customer connections

- ▼ IPART forecasts for customer connection numbers (or entitlement volumes³) and sales volumes over the current price determination period and actual customer connection numbers (or entitlements) and sales volumes over this period.
- ▼ Agency to explain how accurate their forecasts were for the current determination, and if there are any implications for the methodology to be adopted in estimating sales volumes or customer connections for the upcoming determination period.

³ In the case of bulk water providers, such as State Water Corporation and the Water Administration Ministerial Corporation.

2.3.4 Historic operating expenditure

- ▼ Overview of the drivers of operating expenditure, activities carried out and outcomes achieved over the period.
- ▼ Comparison of IPART determined operating expenditure and the agency's actual operating expenditure⁴ (by service and/or service area) for each year over the current determination period. A table of results should be included in the body of the submission.
- ▼ Any variances between the determined and actual operating expenditure need to be explained.
- ▼ Highlight any significant deferment of works, cost savings or cost increases that the agency has experienced over the current period.

2.3.5 Historic capital expenditure

- ▼ Overview of the drivers of capital expenditure, activities carried out and outcomes achieved for each year over the current determination period.
- ▼ IPART determined capital expenditure and the agency's actual capital expenditure⁵ for each year over the current determination period should be included as a table in the body of the submission.
- ▼ Comparison of actual capital expenditure by program (or project) to IPART determined capital expenditure program (or project), as specified in the last determination report. A table of results should be provided in an Appendix to the submission.
- ▼ Any variances between the determined and actual capital expenditure need to be explained.
- ▼ Highlight any significant cost savings or cost increases that the agency has experienced over the current period.

2.3.6 Implementation of current determination

- ▼ Statement on how the current determination has been implemented, and if not, the reasons why it has not been implemented. This is a requirement of section 18(5) of the IPART Act.

An agency should explain any variations in prices from the maximum determined by IPART at a level consistent with IPART's previous determination report. For instance, if IPART's report provides forecast sales volumes by service, area and customer type, then the agency should also identify and explain any variances by service, area and customer type.

⁴ For the current/final year of the determination period, IPART acknowledges that this will have to be a forecast.

⁵ For the current/final year of the determination period, IPART acknowledges that this will have to be a forecast.

In discussing the implications of any variations between forecasts and actual outcomes, the submission should explain the implications for the agency, its performance and its customers.

2.4 Standards of service

The standards of service an agency is required to achieve are a critical consideration when setting prices. Section 15 of the IPART Act requires that in setting prices the Tribunal is to consider standards for quality, reliability and safety of the services (whether those standards are specified by legislation, agreement or otherwise).

For the next determination period, an agency needs to clearly explain its standards of service including the quantity, quality and scope of activities and services. It also should describe how it has decided on the appropriateness of the service levels that it plans to provide or undertake. For instance, the agency should explain whether it has undertaken any studies customer willingness to pay for any improvements in service levels that exceed regulatory requirements.

An agency should identify if there has been a change (or expected change) in:

- ▼ operating performance standards (such as contained in an Operating Licence), performance targets, and output measures.
- ▼ environmental standards (as specified in Sewerage Treatment System Licences); and
- ▼ government policy (eg, new targets for water recycling)
- ▼ customer service delivery (such as to reduce customer complaints in a particular area).

2.5 Forecast operating costs

This section provides the rationale and key information to support an agency's forecasts of operating costs.

The submission should list the agency's forecast operating costs, by service (and service area where applicable) for each year over the next 5 years⁶. These costs should be presented in real dollars in the last year of the current determination period.

⁶ If IPART requires proposed prices for a shorter or longer time period, it will advise the agency.

The submission needs to explain the methodology and rationale used to develop these forecasts including:

- ▼ Drivers of and justifications for this expenditure, activities to be carried out, and outcomes to be achieved.
- ▼ How the agency's forecast expenditure relates to quantity and quality of service (or activity) and the drivers of or justifications for these service levels.
- ▼ The business case, including details of supporting economic analysis, for increases in operating expenditure above the determined operating costs for the final year of the current price period.
- ▼ Identification and explanation of the trend in the agency's forecast operating expenditure and the relationship between this trend and the agency's obligations and standards, having regard to: historical expenditure, scope for productivity improvements, trends in inputs prices and other factors. In particular, submissions should provide details of, and reasons for, any changes in operating costs.
- ▼ Potential changes to operating expenditure resulting from current or proposed capital projects.
- ▼ A description of the agency's current and forecast efficiency programs and the potential for efficiency gains and how these have been factored into forecast expenditures.
- ▼ Key assumptions underlying the forecasts, any risks to the expenditure forecasts, and how these risks and uncertainties have been addressed.
- ▼ Indications (if any) of customer willingness to pay for any improvements in service levels that exceed regulatory requirements.
- ▼ The agency's approach to allocating indirect (ie, common or shared) costs, and the rationale for this allocation, including (where applicable):
 - The allocation of indirect costs between the agency's IPART regulated activities and its other activities/functions (including steps taken to 'ring fence' non-regulated costs and recycled water costs). For example, the treatment of corporate overheads between regulated and non-regulated businesses.
 - The allocation of indirect costs across services and service areas.

2.6 Forecast capital costs

This section provides the justification and key information to support an agency's proposed capital program.

The submission should list the agency's forecast capital costs, by service (and service area where applicable) for each year over the next 10 years. These costs should be presented in real dollars in the last year of the current determination period.

The submission needs to explain the methodology and rationale used to develop these forecasts including:

- ▼ Drivers of and justification for capital expenditure, activities to be carried out and outcomes to be achieved (eg, has there been an increase in standards?).
- ▼ How the agency’s forecast expenditure relates to service or activity levels, and the drivers or justification for these service or activity levels.
- ▼ The main drivers (justifications) for each program area (eg, water sources and treatment, water distribution, wastewater transport, wastewater treatment, recycled water and stormwater drainage). Specific major projects could be linked to the drivers, the general approach to options analysis and the overall basis for the cost estimates. The total proposed expenditure could also be broken down by driver.
- ▼ An appendix table listing all major projects, a link to the justifications discussed in the submission, and a key to on-time delivery certainty and the basis for cost estimates. This appendix table could be structured along the following lines.

Project	Total Project Cost (\$12/13m)	Justification	Cost split	Options considered	Cost Estimate Certainty	Delivery Certainty
Upgrade XYZ wastewater treatment plant	22.3	Population growth will exceed current capacity by 2017.	80%	1. Decommission existing plant and transfer inflows to ABC treatment plant.	High – tenders received and contract awarded March 2012.	High – minimal delivery risks.
		DECCW pollution reduction program to reduce Phosphorus discharge by 2015	20%	2. Retain and upgrade to BNR process.		

- ▼ Key assumptions underlying the capital expenditure forecasts, any risks to the forecasts, and how these risks and uncertainties have been addressed? Explain clearly the potential for variations in the capital expenditure program.
- ▼ Identify areas where the agency expects to make efficiency gains on the capital program and the sources of these gains.
- ▼ Explain the relationship between capital expenditure and operating expenditure. For example, if a project has been brought forward or extended to reduce operating expenditure.

- ▼ Indications of stakeholder willingness to pay for discretionary items of capital expenditure.
- ▼ Identify if an agency expects to receive external funding for capital expenditure projects. For example, is external funding on a capital project expected from the Federal Government.
- ▼ Where very large capital expenditure projects are forecast, the agencies should propose how the investment should be recovered and provide analysis to show the impact on customer bills over time. For example, Sydney Water requested that for its desalination plant the capital expenditure should be added to the Regulatory Asset Base when the plant became operational to reduce the price shock for customers in the first year of the determination.

2.7 Recycled Water Avoided Costs

IPART has established a new process to assess and determine the avoided costs of recycled water schemes. IPART has decided to assess avoided costs in conjunction with its review of an agency's operating and capital expenditure, which occurs as part of the price determination process. This process requires agencies to submit a business case to explain and support their avoided cost calculation.

Agencies should include their business case within or as an attachment to their price submission to IPART. It should provide all relevant data, as well as the assumptions used and any other information relevant to IPART's consideration of the avoided costs.

2.8 Elements of regulatory framework

2.8.1 Proposed determination period

In its submission an agency should include the proposed length of the determination period that they are seeking and the reasons for this length. For example, it is consistent with the length of the previous determination and the determination periods of other comparable agencies.

2.8.2 Other issues

These could relate to the relationships between agencies in terms of developing prices. For example, how the bulk water costs from the Sydney Catchment Authority feed into water prices of the Sydney Water Corporation.

2.9 Proposed WACC, depreciation and asset lives

2.9.1 Weighted Average Cost of Capital

In their submission to IPART, water agencies need to provide their proposed real pre-tax Weighted Average Cost of Capital (WACC) and supporting analysis. This should include a breakdown of the WACC into its individual parameters and a comparison of parameters used in the previous determination and possibly other recent water determinations. If the agency proposes changes or adjustments to the WACC parameters then justification should be provided.

As a guide, the table below summarises IPART's current approach to determining the WACC.

Table 2.1 IPART's WACC calculation

WACC Parameters	Source/value
Nominal risk free rate	Bloomberg's 10-year Commonwealth Government bond index, 20-day average
Inflation	Inflation swaps (yield to maturity 10 years) , 20-day average
Market risk premium	5.5% - 6.5%
Debt margin	Proxy bond portfolio, investment grade Australian corporate bonds ^a , 20-day average sourced from Bloomberg
Debt to total assets	60 %
Dividend imputation factor (gamma)	0.5 – 0.3
Tax rate	Statutory tax rate
Equity beta	Industry-specific

^a This bond portfolio changes from time to time – please contact IPART for the current composition of the portfolio.

2.9.2 Depreciation

In past determinations, IPART has generally used the straight-line depreciation method to calculate the allowance for regulatory depreciation. This means that the total value of the RAB is recovered evenly over the assumed life of the assets.

In their submission, an agency need to identify any changes proposed for the calculation of depreciation, including asset classes and asset lives (for each asset class) and the methodology or assumptions used to determine these.

Any proposals to change the method of calculating depreciation should include a full justification of the reasons for the change and an analysis of the impacts resulting from the change.

2.9.3 Asset Lives

Water agencies need to explain their proposed approach to asset lives over the upcoming determination. Asset lives are used to calculate depreciation of an agency's asset base. If an agency proposes changes to the way it calculates asset lives, it should provide justification for the changes in its submission and the methodology it used in calculating the new asset lives.

2.10 Sales volume forecasts

Water agencies need to provide a forecast of sales volumes by year and, in the case of bulk water utilities, by location such as a valley. To support these forecasts, agencies should explain the methodology they have used and also highlight any risks or uncertainties associated with the forecast.

Since the sales volumes are used to calculate the usage price for water, it is important that the agencies provide accurate sales forecasts.

2.11 Customer numbers or entitlement forecasts

Water agencies need to provide forecasts of customer numbers or number of connections by year, service and service area. To support these forecasts, agencies should explain the methodology they have used and also highlight any risks or uncertainties associated with the forecast.

In the case of metropolitan water utilities, they need to provide connection numbers by year and service (i.e. water, sewerage and stormwater). Forecasts of connection numbers by year are needed in order to calculate the level of the fixed charge.

Bulk water utilities such as State Water will need to provide entitlement numbers by year, valley and by type of entitlement such as high or general security. Entitlement numbers are used to calculate the value of entitlement charges.

2.12 Outstanding issues from the previous pricing determination

In the last pricing determination report, IPART may have identified some issues for the water agency to undertake further analysis. For example, IPART may have asked the agency to provide an estimate of the long run marginal cost of water at the next price review.

As part of the submission, an agency needs to explain how each of these outstanding issues have progressed and any conclusions or implications from their analysis. A summary of the analysis for each issue should be provided in an appendix to the submission.

2.13 Proposed prices

The agency's submission should list each of its proposed tariffs for each of its services over the next 5 years.⁷ This should include each element of a multi-part tariff structure (eg, fixed and usage charges), as well as individual miscellaneous or administration fees or charges.

For **each** of these proposed tariffs or charges, the submission should also provide the agency's reasoning or justification, including:

- ▼ the relationship between the price (level and structure) and the agency's costs of service provision
- ▼ the relationship between the proposed price structure and the price structure of the current determination, including the rationale/basis for any proposed variation and an analysis of any transitional issues
- ▼ the relationship between the proposed price level and the price level of the current determination, including the rationale/basis for the proposed variation and an analysis of any transitional issues
- ▼ analysis of any 'willingness to pay' information available to the agency
- ▼ for each type of miscellaneous or administration fee or charge, the number of fees or charges forecast to be levied over the upcoming period, and the basis for these forecasts.

IPART generally uses a building block methodology to calculate an agency's revenue requirement and prices. This methodology is outlined in Appendix A. It is expected that water agencies will use the building block methodology in calculating their revenue requirement and proposed prices.

⁷ If IPART requires proposed prices for a shorter or longer time period, it will advise the agency.

2.14 Impacts of proposed prices

Water agencies in their submissions need to include an assessment of the impact of proposed prices on customers and the agency itself. The areas on which the agency needs to provide analysis are covered under the headings below.

Transitional arrangements to manage or mitigate proposed changes in price.

Any transitional arrangements to manage or mitigate proposed changes in price need to be covered in detail in a water agency's submission. A justification for the arrangements and assessment of costs in terms of foregone revenue needs to be provided by the agency. Measures that agencies may take to mitigate price changes include:

- ▼ Setting transitional price paths (such as a glide path or smoothed NPV approach) occur where the agency only recovers its full notional revenue requirement in the final year of the determination.
- ▼ Providing customer service obligations (CSOs) where a decision has been made to set prices below full cost recovery due to the negative customer impacts that would result. Agencies should outline the costs, amount of foregone revenue and the length of time that CSOs will continue for.
- ▼ Excluding a portion of the Regulatory Asset Base (RAB) where an agency has plans to undertake a considerable amount of capital expenditure to fund assets required for growth. By excluding a certain amount of the RAB and deferring returns on this portion of the RAB, an agency may seek to ensure that those who create the need for this capital expenditure will bear the costs of it in the future. This also ensures that current customers do not bear the costs of growth related capital expenditure in the current period. Agencies should provide a justification and costing of any proposal to exclude a portion of the RAB.

2.14.1 Rebates and any other measures to mitigate the impact of proposed prices on customers, particularly vulnerable groups

Agencies should provide an outline of rebates and any other measures that are available to customers to mitigate pricing impacts. Where pensioner rebates are available, agencies should provide an analysis of pensioner bills and compare pensioner bills to full bills.

2.14.2 Other impacts (environment, other section 15 considerations...)

Agencies should cover any other impacts of their pricing proposal such as environmental or section 15 considerations. These could include things such as environmental levies. For example, State Water proposed the continuation of a natural resource management plan levy for irrigators in the Yanco Creek System. This levy was supported by the Yanco Creek and Tributaries Advisory Council and was a continuation of the same levy as in the previous determination, therefore minimal justification was required.

Agencies will need to provide more detailed information on pricing impacts from environmental related charges where these charges are new or are changing substantially.

2.14.3 Affordability

Submissions should provide an analysis of customer affordability resulting from pricing impacts. For example, bills could be presented as a proportion of average household income. Bulk water utilities such as State Water could provide an analysis of the affordability of bills by providing them as a percentage of total farm cash costs, as they did in their most recent submission.

Agencies could also provide analysis of willingness to pay for additional services or service upgrades if they undertake these studies. Where new charges are being introduced or large amounts of discretionary expenditure are occurring, agencies should engage in customer consultation to ensure that customers are willing to pay for these additional services.

2.14.4 Customer consultation

A water agency submission should include information on how customers have been consulted on proposed prices and report the responses of customers to these proposed prices. Agencies should provide evidence of customer willingness to pay where new charges are introduced or large discretionary expenditures are being undertaken. Water agencies could also provide evidence from objective customer surveys in support of new charges or large increases in existing charges. Wherever willingness to pay studies, customer surveys, or other forms of customer consultation are undertaken, the water agency should outline the methodology used for studies or surveys, or how the customer consultation was undertaken.

2.14.5 Impacts on the agency – credit ratings, financial viability

Submissions should address not only the impacts of pricing proposals on customers, but also the consequences of the proposed prices for the regulated business. For example, an agency should explain the impacts their pricing proposal will have on their credit ratings. IPART seeks to ensure that our pricing decisions result in at least an investment grade credit rating over the regulatory period.

2.15 Quality Assurance requirements

IPART requires that the submission, information returns and any other materials provided by the agency will be subject to an external quality assurance check (QA) before they are submitted to IPART. This is to provide a level of assurance that information submitted by an agency is complete, accurate and consistent. This will help to avoid errors or delays in the pricing determination process.

The QA needs to include the following areas:

- ▼ Information in the submission should be checked to ensure that it is consistent with that in the information return, the agency's financial accounts, and reports against output measures, as relevant. Where there are variations in figures, these need to be explained.
- ▼ Figures in the submission should be checked to ensure that they are accurate and correctly sourced. The figures need to sum correctly and be in the same terms (ie, all figures are in nominal or real dollars of the same year). The use of nominal or real dollars should also be explained in clear and simple terms so that stakeholders can follow the logic of their use.
- ▼ The QA should check that all the issues IPART has requested information on (such as in the Issues Paper, these Guidelines, or in correspondence) are addressed in the submission.
- ▼ Lastly, the QA should check that the submission includes proposed prices for all monopoly services of the water agency.

Having effective QA procedures in place will help to ensure an efficient review process with a minimum of time spent reconciling any errors that arise. It will also reduce confusion and ensure effective stakeholder participation in the review process.

3 Checklist of submission contents

This checklist should be completed by the water agency, prior to submitting their pricing submission to IPART.

Item	Complete
An Executive Summary has been included	<input type="checkbox"/>
Role and functions of the agency have been explained	<input type="checkbox"/>
Performance over current determination period <ul style="list-style-type: none"> <li data-bbox="288 831 1187 869">■ Service levels <input type="checkbox"/> <li data-bbox="288 887 1187 925">■ Revenue <input type="checkbox"/> <li data-bbox="288 943 1187 981">■ Sales volumes and customer connections <input type="checkbox"/> <li data-bbox="288 999 1187 1037">■ Historic operating expenditure. Data presented in nominal \$. <input type="checkbox"/> <li data-bbox="288 1055 1187 1093">■ Historic capital expenditure. Data presented in nominal \$. <input type="checkbox"/> <li data-bbox="288 1111 1187 1149">■ Implementation of current determination under s.18(5) IPART Act <input type="checkbox"/> 	
Standards of service <ul style="list-style-type: none"> <li data-bbox="288 1223 1187 1294">■ Explained service levels (quantity, quality and scope) for next determination period <input type="checkbox"/> 	
Forecast operating expenditure <ul style="list-style-type: none"> <li data-bbox="288 1375 1187 1413">■ 5 years of future operating costs by service are provided <input type="checkbox"/> <li data-bbox="288 1431 1187 1469">■ Operating costs are in real \$ of last year of current determination period <input type="checkbox"/> <li data-bbox="288 1487 1187 1525">■ Drivers, justification and services levels are explained <input type="checkbox"/> <li data-bbox="288 1543 1187 1581">■ A robust business case for proposed operating expenditure is presented <input type="checkbox"/> <li data-bbox="288 1599 1187 1637">■ Explained key assumptions underlying forecasts and identified risks <input type="checkbox"/> <li data-bbox="288 1655 1187 1684">■ Explained potential efficiency gains <input type="checkbox"/> 	
Forecast capital expenditure <ul style="list-style-type: none"> <li data-bbox="288 1765 1187 1803">■ 5 years of capital expenditure by service is provided <input type="checkbox"/> <li data-bbox="288 1821 1187 1859">■ Capital expenditure is in real \$ of last year of current determination period <input type="checkbox"/> <li data-bbox="288 1877 1187 1915">■ Drivers, justification and service levels explained <input type="checkbox"/> <li data-bbox="288 1933 1187 1971">■ A robust business case for proposed capital expenditure is presented <input type="checkbox"/> <li data-bbox="288 1989 1187 2016">■ Explained key assumptions underlying forecasts and identified risks <input type="checkbox"/> 	

Item	Complete
<ul style="list-style-type: none"> ■ Explained potential efficiency gains 	<input type="checkbox"/>
<p>Elements of Regulatory Framework</p> <ul style="list-style-type: none"> ■ Length of determination period ■ Other issues eg, prices charged between agencies 	<input type="checkbox"/> <input type="checkbox"/>
<p>Proposed WACC, Depreciation and Asset Lives</p> <ul style="list-style-type: none"> ■ Proposed WACC, WACC components and supporting analysis ■ Outline of proposed depreciation method ■ Proposed asset lives 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Sales Volumes</p> <ul style="list-style-type: none"> ■ Sales volumes and methodology used to forecast sales 	<input type="checkbox"/>
<p>Customer Numbers or Entitlement Forecasts</p> <ul style="list-style-type: none"> ■ Connection numbers by year and service (metropolitan water utilities) ■ Entitlement numbers by year, valley and type (bulk water utilities) 	<input type="checkbox"/> <input type="checkbox"/>
<p>Outstanding Issues from the Previous Determination</p> <ul style="list-style-type: none"> ■ Explanation of how outstanding issues have progressed with a summary of analysis in appendix 	<input type="checkbox"/>
<p>Proposed Prices</p> <ul style="list-style-type: none"> ■ Proposed tariffs for each service over the next 5 years 	<input type="checkbox"/>
<p>Impacts of Proposed Prices</p> <ul style="list-style-type: none"> ■ Transitional arrangements to manage or mitigate price changes ■ Rebates and other measures to mitigate price impacts ■ Other impacts, environment, section 15 etc ■ Analysis of affordability ■ Financial impacts on the agency 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>Quality Assurance Requirements</p> <ul style="list-style-type: none"> ■ QA check has been performed 	<input type="checkbox"/>



Appendices

A Section 15 requirements of IPART Act

In making determinations, IPART is required by the IPART Act to have regard to the following matters (in addition to any other matters IPART considers relevant):

- i) the cost of providing the services concerned
- ii) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services
- iii) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales
- iv) the effect on general price inflation over the medium term
- v) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers
- vi) the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment
- vii) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets
- viii) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body
- ix) the need to promote competition in the supply of the services concerned
- x) considerations of demand management (including levels of demand) and least cost planning
- xi) the social impact of the determinations and recommendations
- xii) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

B IPART's Building Block Approach

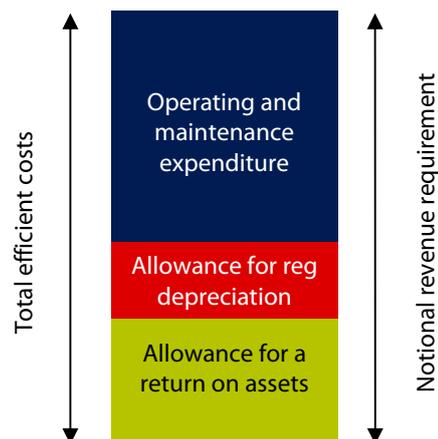
IPART generally uses a building block approach to calculate the revenue requirement for the businesses that it regulates. We expect that water agencies will use the building block approach in developing their pricing submissions. The building block approach ensures that the full, efficient costs of providing regulated services are measured and monitored in a rigorous and transparent way. Use of the building block approach is consistent with the approach we use in regulating other water businesses and industries in NSW.

To apply the building block approach, IPART has to make decisions on:

- ▼ The revenue that the agency will require for operating expenditure over the determination period, including the forecast efficient operating and maintenance costs plus an allowance for working capital.
- ▼ The revenue that the agency will require for capital investment over the determination period, including:
 - an allowance for a return on assets
 - an allowance for a return of assets (regulatory depreciation).

The sum of these amounts represents IPART's assessment of the agency's total efficient costs over the determination period, or its notional revenue requirement. The sum of these cost building blocks is illustrated in Figure B.1 below.

Figure B.1 Building block approach



Once the revenue requirement has been determined through the building block approach, IPART then sets prices to recover this revenue. Before IPART sets prices for water utilities, the revenue received from miscellaneous charges is deducted from the revenue requirement. Following this, we then generally set the water usage charges to equal the long run marginal cost of supplying the water. The remainder of the revenue requirement is recovered from the fixed component of the charges.

In determining how it should recover its revenue requirement through its fixed and usage prices, a water agency should put forward its preferred pricing proposal which incorporates its price structures. Agencies need to outline any new prices that they are proposing as well as any changes to the structure of existing prices. Prices proposed by agencies should reflect the costs incurred in providing the services and the structure of charges should these costs.

