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Ms Liz Livingstone
Chief Executive Officer
Independent Pricing and Regulatory Tribunal (IPART)
PO Box K35
Haymarket Post Shop NSW 1240

29 October 2020

Submission on IPART's Position paper – Regulating Water Businesses – September 2020

Dear Ms Livingstone,

Thank you for the opportunity to comment on IPART's position paper for the upcoming regulatory frameworks review. Sydney Desalination Plant Pty Limited (SDP) considers that IPART's approach to regulating water businesses is robust and has performed well in many areas. In particular, we commend IPART on its genuine engagement with water businesses to understand the key issues facing them and the water sector more generally.

SDP considers that stability and predictability in the regulatory regime, along with the regulator's approach to decision-making, is important to ensuring that businesses are able to attract capital to make the long-term investments needed to deliver for customers now and into the future. For this reason, we encourage IPART to retain components of the regulatory framework that are working well and refine areas where any issues are identified.

In our submission we have responded to the specific questions posed by IPART and sought to highlight some elements of the framework that could usefully be reviewed to ensure that businesses and the framework deliver in the long term interests of customers.

We look forward to engaging with IPART throughout the review process and please do not hesitate to contact myself or Iftekhar Omar, General Manager Regulation ([redacted] if you or your team have any queries regarding our submission.

Yours sincerely,

[redacted]

Philip Narezzi
Chief Executive Officer
Sydney Desalination Plant
[redacted]

Securing Sydney's water
supply for the future….

Regulating water businesses in NSW

SDP's response to IPART's Position Paper for its Special Review into regulating water businesses

30 October 2020

An appropriate citation for this paper is:

Regulating water businesses in NSW

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1. Introduction

Sydney Desalination Plant Pty Limited (SDP) welcomes the opportunity to respond to IPART's Position Paper *Water Pricing and Licensing Regulating Water Businesses Special Review*, September 2020 (Position Paper). It is important to ensure a robust, stable and predictable regulatory framework in a context of ever increasing environmental uncertainty and unprecedented economic conditions facing NSW. A robust regulatory framework is essential in ensuring long-term affordability and security of water supply to customers across NSW. SDP believes the current regulatory framework works well.

SDP supports IPART's general regulatory framework and through this review process we believe there are incremental improvements that IPART could make to its framework to ensure it continues to deliver in the long term interest of customers.

We support the review's focus on these incremental improvements. To do this, we recommend that IPART first review the current framework to identify what is working well and where improvements would deliver better outcomes for customers. This approach will avoid increasing regulatory costs, and provide predictability and stability in the regulatory framework, which underpin the confidence for businesses to efficiently invest, by avoiding approaches that seek to change what currently works well.

The issues that IPART should prioritise are those which have the most material impact on the overarching objective of the review which SDP describes further in Section 2 below, and affect all regulated water businesses in NSW.

We believe the following issues are consistent with this prioritisation framework:

(a) customer engagement to help ensure meaningful regulatory outcomes;

(b) risk management mechanisms to manage uncertainty;

(c) financeability to ensure necessary long-term investments are made;

(d) incentive mechanisms to promote service and cost improvements; and

(e) expenditure review processes to drive efficient investment decisions.

The key areas of focus within these prioritised issues are set out in Sections 2 to 7 below.

SDP also believes that it makes sense to delay the proposed Weighted Average Cost of Capital (WACC) review by IPART for one year to provide SDP with sufficient time and resources to make a meaningful and appropriate contribution to that review, this regulatory framework review and to its 5 year pricing review. This matter is discussed further in Section 6 below.

Our challenges in delivering for customers and the community

IPART's regulatory framework aims to ensure the water businesses, which supply essential services to millions of NSW households, meet the needs of their customers and the community.

To do this, the regulatory framework should enable the water businesses to meet increasing customer and community expectations in the face of challenges across the water industry including catering for population growth, climate change, and helping to improve liveability and environmental outcomes. The framework should enable the businesses to remain financially viable by allowing them to recover their efficient costs including a return on capital that is commensurate with the risk involved.

In our view, the aspects of IPART's review that are most relevant to achieving this are:

- **Efficient prices**: Ensuring that prices recognise the differences in the services provided by various water business and reflect the costs of providing those services including providing a fair and reasonable return on investment.
- **Incentives**: Ensuring that incentive mechanisms drive outcomes that are in the long-term interests of customers, including service improvements and product innovation across all water businesses.
- **Risk sharing**: Establishing arrangements that share risk appropriately between water businesses and their respective customers.

Nature and structure of this response

We support many of IPART's proposals and suggestions outlined in its Position Paper. We believe these are consistent with establishing a regulatory framework that better meets the long-term needs of customers.

However, in order to ensure this review delivers the maximum benefits, it is critical that:

- There is a shared understanding of what the regulatory framework is seeking to achieve, and how IPART will balance the requirements of s15 of the IPART Act with its stated objectives for this review. We consider that this balancing exercise is best achieved by an overarching objective focused on the long-term interests of customers which as discussed below, SDP believes is linked to providing a reasonable return on investment to business owners.
- The review focusses on the areas for incremental improvement rather than addressing the elements of the regulatory framework that currently work well.

Our response has sought to outline key principles to guide how IPART should assess proposals for reform. We have sought to focus on issues which in our view will lead to the biggest benefits rather than responding in detail to every issue in the Position Paper.

SDP looks forward to engaging constructively with IPART and other stakeholders on this important review to ensure the industry delivers outcomes in the long-term interests of customers.

2. Proposed focus areas

Q1. Are the focus areas we have identified the most important? Are there other important issues we should focus on?

The need for an overarching objective

IPART's Position paper identifies four key outcomes for the review. In particular, IPART considers the changes it makes to its framework should encourage the water businesses to reflect their customers' preferences, promote resilient and adaptable water supply, protect the environment and health, and ensure prices remain affordable. While we support these outcomes, we consider a single overarching objective of economic regulation will enable IPART, water businesses and other stakeholders to deliver best value to customers and the community.

The goal of economic regulation aims to maximise welfare by mimicking the outcomes of a workably competitive market. To achieve this, we propose an overarching objective for regulating the NSW water sector, which is:

> ***'to promote efficient investment in, and efficient operation and use of, water and wastewater services for the long-term interests of customers with respect to price, quality, safety, reliability and security'.***

This is consistent with objectives set up in other regulatory regimes, including the National Electricity Objective, under the National Electricity Law[1] and the objectives in Part IIIA of the *Competition and Consumer Act 2010.*

This overarching objective can be expanded into more detailed goals, set out below:

- Promoting the supply of water and wastewater services using the least cost combination of capital and operating inputs, which can be achieved by ensuring that water businesses face appropriate incentives to incur efficient costs, minimising regulatory risk, and allocating risks to the party that is best able to manage them
- Maximising long term interests of customers, which can be achieved by ensuring that the regulatory framework is resilient and responsive to changes in the needs of customers, and protects the environment and health through efficient investment and use of services over the long term
- Ensuring that the water businesses are able to set prices at a level that provides a reasonable opportunity to recover at least the efficient costs of providing its services including a return commensurate with the level of risk incurred in providing its regulated services. SDP believes that providing a reasonable return on investment to business owners is a key underpinning of any fair regulatory framework and is also in the best interests of customers as it encourages efficient investment and innovation to help serve the needs of customers.

1 The National Electricity Law is a schedule in the National Electricity (South Australia) Act 1996. The National Electricity Law is applied in each participating jurisdiction by application statutes.

A clear objective can help prioritise issues for this review

In our view, many aspects of the current regulatory framework work well, but the framework could be enhanced to better adapt to emerging challenges and ensure that outcomes are in line with the long-term interests of consumers.

The issues raised by IPART in its Position Paper are broad and far-reaching. In our view, the review is likely to be more productive and lead to tangible improvements if IPART focuses its efforts on a more targeted list of key topics. The issues that IPART should prioritise are those which have the most material impact on the overarching objective above, and affect all regulated water businesses in NSW.

We believe the following issues are consistent with this prioritisation framework:

(a) customer engagement to help ensure meaningful regulatory outcomes;

(b) risk management mechanisms to manage uncertainty;

(c) financeability to ensure necessary long-term investments are made;

(d) incentive mechanisms to promote service and cost improvements; and

(e) expenditure review processes to drive efficient investment decisions.

3. Lifting the performance of the sector

Q2. What mechanisms can we put in place to ensure the water businesses are accountable for the prices, services and outcomes they deliver to their customers and the community?

We support the businesses being accountable for their performance. However, it is important that the regulatory framework provides the tools (including risk management tools) and flexibility for businesses to efficiently respond to incentives in order to deliver the desired customer and community outcomes.

Effective risk management is critical to managing uncertainty

Ensuring that a regulated water business has a reasonable opportunity to recover its efficient costs in providing service to customers is a fundamental tenet of sound economic regulation. It also protects the long-term interest of customers by ensuring the business has sufficient funds to efficiently undertake maintenance and investment in its assets to provide safe, secure and reliable services to customers.

In line with this, IPART's regulatory framework should ensure that cost and revenue risks are managed prudently and appropriately allocated between the regulated businesses and their customers (see Box 1). SDP agrees with IPART that finding the right balance is challenging. However, adherence to best practice principles, such as ensuring that risks are assigned to the party best able to manage it, providing the business with appropriate incentives to mitigate and manage the risks assigned to it, and sharing the benefit of any reduced risk with customers, will produce outcomes that are consistent with the long term interests of customers.

Box 1: IPART's current criteria for a cost-pass through mechanism

A cost pass-through mechanism should only be applied in situations where:

1. There is a trigger event (to activate the cost pass-through), which can be clearly defined and identified in the price determination.

2. The resulting efficient cost associated with the trigger event can be fully assessed including whether there are other factors that fully or partially offset the direct cost of the event. [a]

3. The resulting cost is assessed to exceed a materiality threshold.

4. The regulated business cannot influence the likelihood of the trigger event or the resulting cost.

5. The mechanism is symmetric in that it applies equally to both cost increases and cost decreases (in cases where the risk can result in both cost increases and cost decreases).

6. It is clear that the cost pass-through will result in prices that better reflect the efficient cost of service.

[a] *The costs to be passed through must be specified in the price determination*

Source: IPART, Water pricing and licensing, Regulating Water Businesses, Special Review, September 2020, p15.

While IPART's framework does include provision for cost-pass through events, the way in which this mechanism is applied does not appropriately address the risk of many cost uncertainties. In particular, the cost pass through mechanism will not apply in circumstances where an uncontrollable event is:

- unknown or unforeseen, even if there is a risk that an event could occur with potentially material cost (and price impacts) – this will be excluded by IPART's cost pass through criteria 1 (see Box 1); or
- can be clearly defined, but the cost (and price impacts), while potentially material, are unknown at the time of the Determination – this will be excluded by IPART's cost pass through criteria 2 (see Box 1).

This means currently that if there were material changes to, for example, SDP's operating modes that were unforeseen (and so uncosted), there would be no opportunity to adjust prices to reflect the efficient cost of complying with this amended operating environment without re-opening the determination. This could lead to inefficient price signals being sent to customers, potentially threatening financial viability and causing price shocks at the next determination period. Relying on re-opening the determination to address these risks imposes considerable regulatory costs on both IPART and the businesses, increases investment uncertainty and ultimately does not reflect an efficient process for managing risks.

In our view, there is value in considering options for improving risk management mechanisms, including through changes to IPART's cost pass-through framework to better manage risks resulting from unforeseen and uncontrollable events. It would be beneficial for IPART to provide greater clarity on what the 'right balance' is in how risks are allocated between businesses and their customers, and how its risk management mechanisms achieve this balance. We also note that there is regulatory and commercial precedence for unknown or unforeseen events not needing to be specified ex ante in price determinations and this is worthy of IPART's consideration. Examples include IPART's approach to regulating both retail and network electricity businesses (where IPART provided for cost pass throughs associated with tax changes and costs associated with the introduction of full retail competition) and approaches by other jurisdictional regulators, including the Essential Services Commission of South Australia and the Queensland Competition Authority.

Interpretation of financeability tests should be clarified

Regulated businesses cannot invest in services that promote the long term interests of consumers if they are not financeable. That is, businesses that face financeability challenges will not be in a position to participate in the task of lifting the performance of the sector, or to undertake innovation that will benefit consumers.

As IPART has previously explained, its financeability tests are intended to provide an important safeguard against regulatory errors, and to enhance the transparency and predictability of the regulatory framework. We support IPART undertaking its financeability test and we agree with the current settings within the test. However, in SDP's view, IPART's recent application of the financeability test does not appear to meet these important objectives.

The key aspect of the test that did not work as anticipated was the way in which IPART interpreted the results of its financeability tests.

In particular, in the draft metropolitan water decisions, Hunter Water, Sydney Water and WaterNSW clearly failed IPART's benchmark test in relation to the same metric: the FFO/debt, yet IPART concluded that none of the businesses faced a financeability concern. According to IPART's own final report on the review of its financeability tests, the most plausible explanation for a business failing the benchmark test is that regulatory allowances had been set at an insufficient level to maintain financeability. Because IPART concluded that there was no financeability concern, it took no action in the draft decisions to adjust regulatory allowances to address the financeability problem.

In response to submissions made by several businesses on this issue — including that IPART had not followed the decision-making framework that it had established for its financeability tests — IPART's final metropolitan water decisions excluded the reasons given for concluding there was no financeability concern to be addressed.

In our view, there is a need for clarity on the process that IPART intends to follow when interpreting the results of financeability tests. This will be important for SDP when considering the impact of energy cost allowances on our financial metrics and what resulting actions need to be taken.

Q3. How can we better coordinate with other stakeholders (including the Government's strategic water plans and the requirements of other regulators) to help lift the performance of the water sector?

SDP supports IPART exploring initiatives to strengthen communication and coordination with other stakeholders and regulators. The Government has recently begun its Greater Sydney Water Strategy review to assess options to future proof Sydney's drinking water needs over the next 20 plus years. SDP has an important role in this strategy in terms of providing water security and responding to water emergencies, which has implications for SDP's future operations. IPART should ensure that its regulatory framework allows water businesses to recover the efficient and prudent cost of meeting their roles, and includes appropriate risk management mechanisms to address changes in the Government's strategic water plans for example, if the Government changes SDP's operating rules as part of the Greater Sydney Water Strategy.

4. Encouraging innovation

Q4. Should we use a broader range of incentives to encourage innovation? If so, what would these be? For example, can we inspire 'competition by comparison'?

IPART's current approach relies largely on financial incentives to motivate the water businesses to pursue efficiency gains. This is through a 'no claw back' mechanism, an efficiency carryover mechanism and (for SDP) the abatement mechanism.

SDP recognises the importance of these incentive mechanisms in ensuring the efficiency, reliability and affordability of water supply in NSW. In our view, the incentive mechanisms implemented by IPART need to target the end outcomes that customers will value and, importantly, provide flexibility for businesses to achieve those outcomes in prudent, efficient and innovative ways. At present, some incentive mechanisms that IPART apply to water businesses appear too prescriptive and do not afford sufficient flexibility for businesses to innovate to achieve the valued customer outcome such as the restrictive settings within SDP's abatement mechanism, which could constrain a more cost effective maintenance regime.

To ensure that incentive mechanisms are fit for purpose, it is important that IPART:

- Establish clear principles that incentive mechanisms should meet that align with the long-term interests of customers, including flexibility for businesses to respond in prudent, efficient and innovative ways, and a fair allocation of risks and costs between businesses and customers.
- Review existing incentive mechanisms and assess whether they meet these principles and, if not, propose changes to the mechanisms to better meet the long-term interest of customers.

The first step in this analysis is to establish clear principles by which the incentive mechanisms will be assessed. In our view, a suitable incentive mechanism would meet the following principles:

- **Provide incentives that are in line with the long-term interests of customers**: The scheme should incentivise businesses to pursue innovation through actions within their control. The scheme should not create perverse incentives for the business inconsistent with prudent and efficient investment, maintenance, and operation. This includes enabling the business to achieve a reasonable return on investment so that it has appropriate incentives to invest in the interests of customers. Note: innovation that responds to incentive mechanisms may be short term or operational in nature and some programs may involve long term capital investment.
- **Be consistent with legislative requirements**: The mechanism should be consistent with the requirements under the legislation, any Terms of Reference and the business' Operating Licence and other regulatory approvals (such as environmental and planning consents).
- **Be symmetrical**: Incentives should be symmetrical (i.e., reward/share upside and downside).
- **Be proportionate and timely**: The penalties/rewards should be proportionate to the impact of the business' performance and applied in a timeframe proximate to that performance.
- **Be simple and clear**: This will minimise upfront and ongoing administrative costs. In addition, clarity on how the mechanism will be applied will help to ensure that businesses are able to understand and respond appropriately to the incentives created.

- **Provide continuous incentives**: A business facing a potential efficiency gain should not perceive a material advantage in either deferring or advancing an efficiency gain or loss. The business should, instead, face an essentially constant benefit or cost from implementing a gain or loss as it arises. The measurement of gains and losses should not be affected by artificial means such as the shifting of costs between years and regulatory periods, but should represent genuine business outcomes that have arisen in the ordinary course of conducting the business in a prudent and diligent manner.

SDP believes there is merit in considering incentive mechanisms implemented by other regulators and jurisdictions. However, IPART should consider how these mechanisms align with the principles above, draw on practical experiences and outcomes where those mechanisms have been applied, and consider any differences in operating environment that may affect their effectiveness. Any principles that IPART develops could then apply to SDP's abatement mechanism.

In our view, competition by comparison may be less useful in NSW given there is only a small number of businesses with quite different functions, asset bases and operating environments. For desalination plants in particular, other desalination businesses have substantially different mandates, asset configurations and operating rules, so costs and performance are not usefully comparable.

A further consideration to help foster innovation is to allow businesses some investment in research and development where that research and development helps promote the long term interests of customers.

Q5. Does our discretionary expenditure framework create the right incentives for the business to pursue (and deliver) service outcomes above mandatory levels?

Q6. What changes should we make to our review of the business's actual and proposed expenditure? For example, what information should we require from businesses and where could we credibly incorporate more benchmarking into our expenditure review process?

When applying the building block model, IPART assesses the efficiency and prudency of proposed capital and operating expenditure. Past capital expenditure is also subject to an ex-post review. This is used to determine how much of the regulated water business' actual capital expenditure over the previous regulatory period was prudent and efficient and, therefore, should be rolled into the regulatory asset base (RAB) for the next regulatory period.

Uncertainty over efficiency and prudency tests can undermine efficient investment

Prudency and efficiency tests are important parts of the regulatory framework. However, in our view, IPART could usefully provide more detail about how it will apply these expenditure tests in practice. That is, it would be beneficial for IPART to clearly specify the factors that it will consider and the framework it will follow in determining whether certain past or proposed expenditure is prudent or efficient. This will provide greater confidence for the businesses to undertake prudent and efficient expenditure to the long term benefit of customers. In other sectors, such as the electricity sector, the regulatory framework clearly specifies the factors that the regulator must consider when exercising its discretion to allow certain expenditure.

IPART's ex-post review of capex increases stranding risk

As part of its ex-post review of capital expenditure, IPART can 'disallow' any expenditure over the previous regulatory period that it considers was not efficient or prudent. This has the potential to impose considerable stranding risk on the business. Ex-post reviews also increase the regulatory burden on both IPART and the business. In our view, ex-post reviews that seek to exclude certain capital expenditure from being included in the RAB should be limited to address clear cases of inefficiency. The reviews should not to take the place of ex-ante incentives, and should not be the principal means of achieving efficient levels of capital expenditure. This is consistent with best practice incentive regulation and the approach adopted by regulators in other sectors.

IPART's current expenditure assessment toolkit may not produce efficient outcomes

IPART typically engages expenditure consultants to undertake a detailed review of capital and operating expenditure.

We consider that for a single asset business, such as SDP, it is appropriate for IPART to continue with this approach. SDP remains committed to ensuring that there is a shared knowledge of how the plant and pipeline operates efficiently in order to assist consultants in understanding our expenditure.

In the Position Paper, IPART discussed the relatively heavy-handed nature of this approach. We consider that there is opportunity to streamline the process by having a structured engagement between the consultants, the business and the regulator.

Further, the review process would be improved if IPART established what it considered to be good process in developing expenditure plans (for example specifying the requirements of a capital expenditure business case). The review process would then assess whether the business had properly executed the established processes in developing their expenditure plans.

As an example, this approach would clarify what a sound competitive tender process would involve. There is considerable regulatory precedent that a robust competitive tender process should be taken as prima facie evidence that the resultant costs are efficient. As such, IPART should clarify good procurement practice principles, and any efficiency assessment should focus on the extent to which the tendering process aligns with these principles.

SDP supports the adoption of complementary expenditure assessment measures where possible. However, it is not feasible to develop a robust dataset of desalination companies from around Australia for benchmarking to be applied to SDP. This is because there are substantial differences in the operating mandates that the different desalination plants have, their design that can drive large differences in key cost components like energy and in the operating environments within which they operate.

5. Promoting a customer focus

Q8. What level and type of engagement are customers looking for from water businesses?

Q9. How do we provide the right incentives for the businesses to genuinely engage with their customers, understand what they want and incorporate this into the heart of their operations?

Q10. Who is best placed to undertake customer engagement? Is it the business, IPART or another independent third-party?

To-date, SDP has not interfaced extensively with end-use customers. Sydney Water is SDP's only current customer. Having said this, we recognise that SDP plays an important role in securing water supply for the Greater Sydney region, and the ultimate beneficiaries of this service are end use customers.

We propose fit-for-purpose customer engagement, recognising that SDP differs from the metropolitan water businesses and, as such, the level and type of our customer engagement will differ.

It is important to ensure that customer consultation is undertaken in a meaningful way, and produces outcomes that are more in line with the long-term interests of those customers. We consider that meaningful incorporation of customer engagement into the regulatory process is likely to be characterised by:

- establishing principles for sound and effective engagement rather than establishing prescriptive requirements;
- implementing customer engagement requirements on the businesses using incentives rather than just being enforced;
- tying engagement to improving customer outcomes and satisfaction rather than being required for its own sake; and
- ensuring that sound engagement outcomes and agreements with customers are given weight in regulatory assessments and decision making.

In our view, customer engagement should be driven by the water businesses, as they are in the best position to understand how their services impact customers and how they can improve their services to deliver the desired customer outcomes. Customer advocates and their engagement specialists are well placed to assist the businesses to design effective forms of engagement that are capable of reaching the broad range of customer types and those that can be harder to reach (e.g. business, residential, vulnerable customers, culturally and linguistically diverse customers, young customers, etc).

6. Review of the WACC

Q11. When should we conduct our next WACC review? What are your views on the scope of the review and when should the outcomes of a new WACC method apply to future pricing reviews?

SDP supports IPART's proposal to conduct another, limited review of its WACC methodology. Whilst SDP considers that most aspects of IPART's existing WACC methodology are working well, there are a small number of areas in which improvements could be made. SDP also supports IPART's proposal to separate the WACC methodology review from the regulatory framework review.

IPART should stagger the regulatory frameworks and WACC reviews

IPART's position paper proposes that the WACC methodology review would commence in December 2020 and would be undertaken over a 12-month period. This suggests that the WACC methodology review would be conducted in parallel with the regulatory framework review.

Having a WACC review in parallel with a Regulatory Framework review in parallel with SDP's five year regulatory price review is a particularly significant and onerous burden for SDP which has a very small corporate team and would not allow SDP to contribute appropriately or meaningfully to all three reviews.

SDP therefore considers that an important step in alleviating this constraint for SDP it would be preferable to stagger two of the reviews –by commencing the 12-month WACC methodology review in December 2021 rather than December 2020. This would allow IPART and stakeholders to devote full attention to each review separately (this review and the WACC review), rather than spread limited resources across two significant concurrent reviews. SDP is concerned that it may be challenging for stakeholders to participate fully in both reviews, were they to be conducted in parallel.

SDP is further considering the timing of its five year regulatory price review and will reach out to IPART separately on this matter.

The next WACC review should focus on select aspects of the methodology

SDP agrees that many of the changes introduced in the 2018 WACC review were significant improvements and do not need to be revisited in the forthcoming review. SDP also supports the approach of undertaking an incremental WACC methodology review that focusses on a small number of material issues where the need for improvements are pressing and would best promote the long-term interests of consumers.

At this stage, SDP proposes that the treatment of inflation within the regulatory framework should be the focus of the next WACC methodology review.Significant changes to economic conditions following global financial crisis and the more recent impacts of COVID-19 have demonstrated that the Reserve Bank of Australia's ability to increase inflation to within its target range has been materially diminished. This has meant that many regulators' approach to forecasting inflation, including IPART's current method, materially overestimates inflation expectations and this has resulted in systemic under-compensation of SDP and other water businesses in the past. SDP made a public submission about this matter as part of the public consultation process in the recent metropolitan water price reviews which were concluded in June 2020. IPART should review what is the most reliable method(s) to estimate the market's expectation of inflation over the regulatory period in all market conditions.

In our view, the specific scope of the WACC review should be considered as part of the WACC review process, when it commences.

7. Structure of the review

Q12. Do you have any comments on our proposed review process and timeline?

IPART has proposed structuring the review roughly into three 6-month periods as set out below:

- Six months to consult on scope and present initial views
- Six months to solve problems and make decisions
- Six months to present, explain and refine draft decisions with stakeholders.

In the second phase, IPART is proposing to hold workshops on the focus areas for the review. It will also publish Discussion Papers on these focus areas. Feedback from these papers would be collated into a Draft Report. We expect most of the 'heavy lifting' for the review to be undertaken during this phase. In our view, the 6 months allocated by IPART to undertake these tasks is unlikely to provide sufficient time to properly consider the key issues covered in the review. As such, SDP believes there is benefit in extending the time allocated to the second phase of the review to deliver a more considered Draft Report.

An alternative timeline that would allow IPART to prepare a more comprehensive Draft Report that properly considers all the key issues and reflects feedback from stakeholders is provided below:

- Six months to consult on scope and present initial views
- Eight months to solve problems and make decisions
- Four months to present, explain and refine draft decisions with stakeholders.

While we note IPART proposes workshops based around the three key focus areas nominated in the Position Paper (namely, lifting the performance for the sector, encouraging innovation; and promoting a customer focus), there may be merit in an initial workshop which canvasses the key priority issues and framework for the review, before diving into the detail of specific issues.