

14 September 2018

Contact: [REDACTED]
Telephone: [REDACTED]
Our ref: D2018/101299

Ms Bee Thompson
Chief Modeller
Independent Pricing and Regulatory Tribunal
Via IPART Website

Dear Ms Thompson

Review of Working Capital Allowance 2018 – Information Paper

WaterNSW is pleased to provide feedback on the IPART Review of Working Capital Allowance 2018 Information Paper (Information Paper), released on 20 July 2018. Our submission pertains to water businesses regulated by IPART only.

Overall, we support the following proposals made by IPART in the Information Paper:

- that receivables be amended to include an allowance for benchmark days payment delay;
- that payables continue to be based on a benchmark number of days;
- that inventory be based on a fixed allowance determined on a case by case basis in the interests of simplicity; and
- that the WACC for working capital be based on a Nominal approach. We consider that this aspect is the most important improvement, recognising that *"a nominal WACC is considered to be more accurate and robust to the extent it provides compensation for the 'cost' of inflation that entities do actually incur¹."*

However we consider that prepayments should be **included** in the allowance for working capital to the extent that utilities can demonstrate the prudence and efficiency of the prepayments, and otherwise be zero as proposed by IPART.

We note that under the changes proposed by IPART, more information will need to be provided by utilities in their pricing proposals, for IPART to determine their "case by case" working capital allowances – including "days delay before payment", prepayments and inventory. Should IPART proceed to implement the proposed improvements foreshadowed in its Information Paper, we recommend that IPART review and consider the extent that this approach achieves consistent, fair and reasonable working capital allowance outcomes across utilities when it next undertakes this review – e.g. in 2022.

¹ Deloitte, Return on Working Capital in the Notional Revenue Requirement, Final report for the Independent Pricing and Regulatory Tribunal, 5 July 2018. p(v).

Given our support for the bulk of the proposed improvements to the allowance for working capital method by IPART, and in the interests of efficiency, we have elected to keep our submission on this review succinct. Should you wish to discuss any aspect of our submission or the Review please contact Carl Charlier at [REDACTED]. We look forward to IPART's Draft Report.

Yours sincerely

[REDACTED]

Joseph Pizzinga
Chief Financial Officer