

Mr Hugo Harmstorf  
Chief Executive Officer  
Independent Pricing and Regulatory Tribunal  
PO Box K35, Haymarket Post Shop NSW 1240

Dear Mr Harmstorf

## **Prices for WaterNSW Greater Sydney Area – WaterNSW response to IPART Draft Report**

On behalf of WaterNSW, I am pleased to provide a submission to IPART in response to its recently released *Review of prices for WaterNSW Greater Sydney – Draft Report*.

Our response to specific matters in the Draft Report are outlined below:

1. **Capital Expenditure:** We do not support the Aither recommendation, adopted by IPART in its Draft Report, to not allow \$27.5 million in project carryforward from the 2012-16 determination period into the 2017-20 price path. These projects were deemed prudent and efficient in at the 2012 price review and are currently underway. We note Aither did not question the prudence or efficiency of these projects. Once projects have been deemed prudent and efficient at a price review, their completion should be allowed in the next regulatory period. To determine otherwise will result in an increase in regulatory risk, and result in the perverse outcome of regulated utilities being incentivised to schedule their capital projects such that they must complete within the regulatory period, which would result in inefficient resource allocation, higher overall project costs and, ultimately, suboptimal outcomes for customers. On this basis, we ask that the Tribunal allow the \$27.5 million in project carryforward into the 2017-20 capital expenditure allowance.

We also advise of a further \$15 million of ICT capital expenditure over the course of the 2017-20 Price Path, and request its inclusion in WaterNSW's final prices. WaterNSW has undertaken a comprehensive 'enterprise architecture' study of its future state ICT requirements, forming the basis of WaterNSW's new ICT Roadmap, which will require an estimated \$69 million in additional expenditure to complete. We intend to deliver the ICT Roadmap over the next two price periods, with \$15 million being the Greater Sydney share of costs over the 2017-20 price period. We will separately provide further supporting (commercial-in-confidence) information to IPART.

2. **Shoalhaven Pumping:** We support implementation of a cost pass-through mechanism for WaterNSW's costs associated with pumping water from the Shoalhaven system when Greater Sydney's water supply falls below 75%, as required under the Metropolitan Water Plan. We note IPART's use of a \$/ML allowance, based on the off-peak electricity rates. We consider this a reasonable, but imperfect, method to cover WNSW's costs, but are concerned that the use of a 100% off-peak electricity rate may not fully cover costs if WNSW is required to pump during "shoulder" or "peak" periods, which attract higher costs, including higher network service provider charges. That said, WNSW will support the proposed pass-through

mechanism for the 2017-20 price period, and work with IPART on potential refinements to the pass-through mechanism ahead of the 2020 Price Review.

3. **Asset Disposals:** We support IPART's proposed new methodology. WaterNSW's asset disposals over the 2012-16 price period have been 'non-significant'. Under IPART's proposed methodology this should result in receipts being deducted from the RAB. However, it appears that IPART has actually deducted 'cost of fixed assets disposed' book value of assets disposed from the RAB, instead of receipts from sale, as provided in the *Annual Information Return*.

	2011-12	2012-13	2013-14	2014-15	2015-16
Asset disposals deducted from RAB – IPART Draft Report	2.4	1.7	7.2	2.0	2.0
Actual Receipts from sale	1.9	1.4	1.8	1.7	1.2

Source: 2015 WaterNSW Annual Information Return to IPART.

Additionally, projected receipts of future asset sales are below:

	2016-17	2017-18	2018-19	2019-20
Asset disposals deducted from RAB – IPART Draft Report (Cost / Book Value)	2.0	2.2	2.2	2.2
Projected receipts from asset sales	1.2	1.4	1.5	1.5

Source: 2015 WaterNSW Annual Information Return to IPART.

4. **Efficiency Carryover Mechanism:** We welcome IPART's adoption of an Efficiency Carryover Mechanism (ECM) for NSW regulated water utilities in its Draft Report. We consider the proposed mechanism an improvement in the current regulatory framework for utilities to find permanent efficiency savings which ultimately deliver lower prices for customers. We note the ECM provides a weaker efficiency incentive relative to the AER and UK regulated utilities and recommend that IPART continue to consider potential enhancements to the ECM ahead of its full implementation in 2020. We also ask that IPART ensure the ECM reporting burden is not onerous or complex.

We look forward to continuing our engagement with IPART as it prepares its Final Report and Determination for the 2017-20 price period. If you have any questions please contact Elli Baker, Chief Financial Officer, at [REDACTED].

Yours sincerely,

[REDACTED]

David Harris  
Chief Executive Officer