

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

Dear Mr Harmstorf

**WaterNSW submission to the IPART – Review of Water Administration Ministerial Corporation Prices**

WaterNSW is pleased to provide a submission to the IPART in response to the recent DPI Water submission on the review of prices for the Water Administration Ministerial Corporation (WAMC).

Specifically, we respond to the following point raised in the submission:

1. **NSW Bulk Water Reforms:** following discussion with DPI Water, we propose an alternative to DPI Water's proposed approach to dealing with the impact of the NSW Government's announced intention to transfer operational functions from DPI Water to WaterNSW. We note the timing and quantum of any such transfers will have the potential for substantial impact on the operating models of both DPI Water and WaterNSW, and will ultimately impact customers either through pricing structures and/or relationship management.

We look forward to continuing our engagement with the IPART over the course of this review.

Yours sincerely,

A large black rectangular redaction box covering the signature of David Harris.

David Harris  
Chief Executive Officer

## **1. Potential Transfer of Functions between DPI Water and WaterNSW**

### **1.1. DPI Water Submission**

**Section 1.2:** *Stage one of the NSW Bulk Water Reforms created WaterNSW through the merger of the State Water Corporation and the Sydney Catchment Authority. Implementation of further reforms, as announced by the Minister for Lands and Water on 3 July 2015, is subject to further consideration but is expected to result in substantial realignment of the functions currently delivered by DPI Water and WaterNSW.*

*In advance of implementing these reforms DPI Water has prepared cost forecasts on a business as usual basis, but with a 'plug out/plug in' approach. It is proposed to IPART that funding of any functions that are transferred be managed through service agreements between DPI Water and WaterNSW, until prices can be adjusted in the next price determination for WaterNSW. This approach has been discussed and agreed with WaterNSW.*

*Careful consideration has been given to ensuring the planning and costing undertaken for DPI Water's preparation of this pricing submission took this into account.*

### **1.2. WaterNSW response**

Regarding the transfer of functions from DPI Water, WaterNSW would prefer to see a mechanism that:

- Separately identifies "continuing functions" and "transferring functions" so that, post 1 July 2016, WaterNSW is fully able to integrate the transferring functions into its business
- Specifically requests that the transferring functions be reviewed in the context of WaterNSW undertaking these functions
- Provides pricing autonomy for WaterNSW responsible functions as soon as possible

WaterNSW would prefer an approach where the DPI Water determination differentiates the pricing applied against the respective functions remaining with DPI Water and those that are transferred to WaterNSW. WaterNSW is keen to work with the IPART and DPI Water to facilitate the most appropriate mechanism, including consideration of relevant regulatory and legislative requirements required to facilitate such proposals.

WaterNSW proposes that prices for respective functions to be transferred are separately determined, and included in a separate price schedule, so that they can be delegated to WaterNSW effective from 1 July 2016. Thereafter such transferred functions would be included in the next pricing submission for WaterNSW (Rural) for prices to be determined from 1 July 2017. It is understood, in this context, that consideration needs to be given to the legislative and regulatory frameworks that facilitate the delivery, delegation and pricing of WAMC services.

WaterNSW is committed to serving its customers at the lowest possible cost. Accordingly, WaterNSW is committed to ascertaining the efficient cost base of the transferring functions and passing on any efficiency and synergy benefits to customers as quickly as possible.

An independent efficiency and benchmarking review is underway that plans to identify the functions to be transferred and establish a prudent and efficient cost base for such functions within the new operating model of WaterNSW. WaterNSW proposes that IPART utilise the

outcomes of this review in determining the prudent and efficient costs for such transferred functions in this context.

With a view to providing a single, and therefore more efficient, interface with customers, WaterNSW proposes that the prices for regulated functions remaining within DPI Water be included as a component of the bulk water and water management charges levied to customers by WaterNSW. A pass through mechanism, or the like, where the costs of the remaining price regulated functions within DPI Water are still subject to regulatory review, but with the determined prices then reflected within the pricing structure of WaterNSW, would be one possible way to achieve this outcome.

WaterNSW would then be the entity responsible for the levying of bulk water and water management charges direct to customers, removing multiple invoice points and ensuring a common point of contact for customers on service and billing related issues.