



## Attachment 2

### Self-assessment against IPART's 3Cs grading rubric

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## Contents

<b>1. Introduction.....</b>	<b>3</b>
1.1 Introduction .....	3
1.2 3C Customer principles.....	4
1.3 3C Cost principles.....	5
1.4 3C Credibility principles .....	7
1.5 Overall grading self-assessment .....	9

## List of figures

Figure 1 – The 3Cs Guiding Principles expenditure .....	3
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# 1. Introduction

As part of the new 3Cs framework, each business must self-assess the extent to which its proposal promotes customer value, encourages cost efficiency and is able to be credibly delivered. The 3 grades are:

- **Leading** – for businesses that are industry leaders in understanding their customers, innovating to deliver services customers want and driving costs efficiencies. The business also demonstrates how it delivers significant improvement in customer value through a combination of quantitative and qualitative evidence.
- **Advanced** – for businesses that demonstrate very strong understanding of their customers, and are broadly at the cost efficiency frontier
- **Standard** – for businesses that conduct meaningful customer engagement and have a credible path towards the cost efficiency frontier. This grade is consistent with good practice in the NSW water sector.

In deciding on our grade, we referred to the 12 guiding principles that sit under the 3Cs, with particular emphasis on the focus principles agreed during early engagement. We also referred to the guidance provided by IPART in the framework Handbook.

Figure 1 – The 3Cs Guiding Principles expenditure

Customer	Cost	Credibility
<ul style="list-style-type: none"> <li>• Customer centricity</li> <li>• Customer engagement</li> <li>• Customer outcomes</li> <li>• Community</li> <li>• Environment</li> <li>• Choice of services</li> </ul>	<ul style="list-style-type: none"> <li>• Robust costs</li> <li>• Balance risk and long-term performance</li> <li>• Commitment to improve value</li> <li>• Equitable and efficient cost recovery</li> </ul>	<ul style="list-style-type: none"> <li>• Delivering</li> <li>• Continual improvement</li> </ul>

## 1.1 Introduction

Reflecting our ambition for this price submission and for our customers, we have pushed ourselves to deliver a high-quality proposal that puts the needs of customers first and delivers value for money. While there are elements of our proposal that we believe would support an “advanced” or “leading” proposal, we consider that, on balance, our submission that aligns with IPART’s “standard” grading.

In arriving at a standard self-grading, we note that our proposal delivers value for money for customers. This is evidenced by the extensive customer engagement process we have undertaken to identify and embed customer preferences and the actions we have taken to reduce costs within our control, including deferring \$860 million in capital projects. We have also significantly enhanced our delivery capabilities for our capital program and have proposed \$133 million in efficiency savings over the next five years to help keep costs down.

From the time that IPART finalised its 3Cs framework in November 2022, WaterNSW took on the challenge of meeting the enhanced aspects of the new framework, particularly in terms of customer engagement and demonstrating the efficiency and prudence of our capital and operating expenditure programs.

Meeting these challenges in a relatively short timeframe has been a significant organisational achievement. As required by the 3Cs framework, we invested significantly in our customer engagement and leveraged external technical experts to ensure our systems and processes meet IPART's heightened expectations. We uniquely face the challenge of developing revenues and prices across thirteen valleys, each with its own specific circumstances, which has stretched our internal resources and resulted in the need to leverage external expertise.

We have taken on the challenge of meeting the enhanced 3Cs requirements and have prepared a pricing proposal that embeds customer preferences, demonstrates thought leadership and provides value for money in meeting our legislative and customer requirements at lowest sustainable cost. While the costs of meeting our obligations has increased, largely due to factors outside of our control, we are doing what we can to keep costs down.

On balance and given the challenges we have had to face in implementing the 3Cs framework, our 'standard' grading should be seen as an honest and extensive effort that reflects the uniqueness of our regulated services and that delivers value for customers. We have embraced the new 3Cs framework and the opportunity it presents to align with our Corporate Strategy and its key direction of putting customers at the heart of our business.

URA has independently assessed the submission and provided advice to WaterNSW that supports our proposal as "standard". We have also drawn on the advice of SECNewgate with respect to our customer rating.

Our summary of the rationale for a standard self-grading is provided below.

## 1.2 3C Customer principles

### Customer

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- Customer centricity
- Customer engagement
- Customer outcomes
- Community
- Environment
- Choice of services

We have assessed our ambition against the customer principles of the 3Cs framework and have assigned ourselves a rating between standard and advanced based on the following:

- We were consciously customer-centric in the way we delivered our price submission. We moved to a deeper engagement form (towards collaboration), with broader content (towards performance stewardship) and earlier timing (towards an ongoing conversation). Our engagement program was purposeful about matching the engagement aims and approaches to 3Cs and our customers' expectations.
- In choosing appropriate engagement methods, SECNewgate assessed our engagement to be standard and advanced, with aspects of leading. The complexity of the task (diverse customer base and pricing structures) demanded the process far exceed a simple two-way communication. They detailed the educative effort to ensure Water Working Group members were equipped for meaningful participation, the sheer effort of travelling over 42,000 kilometres to achieve these conversations, the need to keep updating costs in a live process and being iterative to changing views.
- We can evidence a Customer and Community Engagement Strategy for the proposal which was responsive and adaptive to customer needs in its design and employed a range of methods to reach a broad mix of customers and stakeholders. The leading aspect largely consists of our early consultation with the CAGs to inform our strategy development, consultation on cost shares, better coordination between the agencies, the provision of segmented data and greater transparency.

- Customers influence business outcomes - advanced level achieved, with conversations led by WaterNSW Executives leading to clear customer outcomes; iteration to our business plans and levels of investment to provide a clear line of sight between customer outcomes; preferences for levels of investment and corresponding service, deliverables and performance measures, shaped by participants both at the Customer Advisory Groups and Water Working Groups.
- Processes support customer centricity - a standard and advanced result. A deeply iterative process was achieved that according to SECNewgate resulted in "deepening conversations with laudable honesty from WaterNSW and transparent planning." The outcomes and metrics on how these outcomes will be measured were led by customer conversations.
- Considering what matters most to customers, SECNewgate assessed our engagement to be a combination of standard and advanced, with a number of leading attributions. These included our cost transformation process, consideration of cumulative bill impacts, cost share discussions, and a variety of options offered in pricing structures. Commentary from Customer Advisory Groups and Water Working Groups supports this claim.
- For 'engage effectively', SECNewgate determined a standard and advanced response, citing consistent communication and clear demonstration of where participant feedback had landed.
- In view of the criteria to ensure customers drive outcomes, SECNewgate suggests WaterNSW is a leading submission, with our priority outcomes drawn from over 2,500 conversations across the state.
- For performance measures SECNewgate assessed our response to be standard to advanced, noting that 16 meetings were held with the Water Working Groups and CAGs to consider and finesse these metrics.
- There is a clear and strong alignment between our proposals and customer preferences that is particularly evident in our customer outcomes.
- Considering accountability for customer outcomes they determined a standard result. They noted the consistent support and ownership from the WaterNSW Executive, and that the Executive were ultimately both responsible for the process and familiar with the detail of each program commitment.
- In identifying community outcomes, SECNewgate assessed an advanced result through diversity and geographic spread of community on our Water Working Groups, educating them through the process, and our First Nations roadshow to understand the outcomes that mattered to their community.
- In view of the requirement to develop *community* outcome performance measures two community outcomes particularly related to community - Outcome 4 : Sustainable water and land management and Outcome 5 : WaterNSW will provide customer and community access to data and information.
- In terms of accountability for community outcomes SECNewgate have determined our response to be standard. The WaterNSW Executive's participation in every workshop in the process ensures they understand the commitments and the detail behind them.

### 1.3 3C Cost principles

#### Cost

- Robust costs
- Balance risk and long-term performance
- Commitment to improve value
- Equitable and efficient cost recovery

We have assessed our ambition against the cost principles of the 3Cs framework and have assigned ourselves between a 'standard and advanced' rating. Key features of our approach and offer which support this rating include the following:

- Our Board and Leadership Team have demonstrated ownership of, and commitment to, the submission and its outcomes via their guidance, review and challenge over the past two and a half years. Our CEO led fortnightly discussions at Executive Leadership Team meetings, comprising all Executive Managers to oversee the development of the submission.
- The Board played an active role during the proposal development through its involvement in IPART's early engagement process and through regular briefings as part of a quarterly Board Sub-Committee and regular Board updates.
- Robust review and challenge sessions have enabled us to:
  - defer **\$860 million** in capital projects with a strong case for inclusion on prudence grounds, noting this has resulted in WaterNSW taking on additional operational and financial risk
  - keep our controllable operating expenditure as low as possible while supporting growing regulatory obligations and maintenance needs
  - propose a **\$133 million reduction** in our proposed operating expenditures over the next five year due to our cost transformation program, which represents an aggressive 10% reduction compared to our previous operations
  - introduce a **1% per annum cumulative efficiency** target applied to our operating expenditures to pass on to customers the benefit of our cost transformation program and operating model efficiency improvements.
- Our Board and Leadership Team challenged themselves to take a critical look at how we balance risk between ourselves and our customers. The result is a more active and critical consideration of risk and uncertainty and the way these impact our revenue building blocks, and which has ultimately informed the recommended changes to many of the regulatory parameters that govern how our revenue requirement is determined.
- We continue to drive material capital efficiencies in the way we deliver our capital program. Over the 2025 Determination period, we will continue to drive improvements, including increasing the engagement of regionally based suppliers and contractors, and where sensible, increasing the level of self-performance, to drive improved efficiency. We engaged experienced and highly skilled consultants to assist in the development of our submission and provide assurance about the quality of our proposals, including the quality of supporting information relating to forecast costs or projects:
  - Deloitte helped guide and review the submission to ensure that the information requirements in IPART's Handbook were met including the presentation of our operating expenditure proposal under a "base trend step" framework.
  - Sequana ensured that our asset and investment processes are best in class and that, when followed, are likely to lead to prudent and efficient expenditure.
  - Aurecon supported the review and confirmation of asset condition, and the development of detailed business cases and project justifications within our proposed capital expenditure program.
  - URA to supported the Board's attestation and provided specialist advice on the 3Cs and PREMO frameworks.

Cumulatively the management (and risk) decisions we have taken deliver close to a **\$1 billion** (\$2024-25) reduction in our proposed expenditures for the 2025 determinations compared to initial forecasts. These decisions will lead to the revenue requirement and customer prices over the 2025 Determination period being lower than they otherwise would be if not for our actions.

## 1.4 3C Credibility principles

### Credibility

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- Delivering
- Continual improvement

We have assessed our ambition against the credibility principles of the 3Cs framework and have assigned a **'standard to advanced'** rating.

### Delivering

Key features of our approach and offer that support this rating include:

- Our ability to deliver our capital program has been assessed and challenged by our independent advisors, Management and the Board. We are confident of our ability to deliver the program.
- The significant impact that flooding in 2022 had on our ability to access our infrastructure in many locations and the need to reallocate resources to emergency and operations efforts, combined with significant supply chain challenges, has led to an under-recovery of our capital expenditure compared with the current determinations. Our learnings from these events have positioned us to better respond to significant events over the upcoming period to deliver our investment programs.
- Our proposed performance management approach emphasises transparency in relation to performance and our possible responses to underperformance, which may include consideration of additional funding and/or reprioritisation to address chronic underperformance.
- We have regularly had our financial position reviewed by independent credit ratings agencies. Our pricing proposal would place us in a sound and sustainable financial position moving forward.
- We have embarked on an ambitious cost transformation journey that will continue to put downward pressure on the costs that we can control.

Since the last round of IPART determinations in 2020 and 2021, several strategic improvements have been embedded into WaterNSW's capital program delivery process across three areas of focus:

- **Program governance**, including improvements to procurement processes.
- **Program delivery**, including:
  - engagement of an engineering design partner and two construction partners to improve delivery on our asset renewal and replacement (ARR) program and the establishment of our operations professional services panel
  - improvements to Asset Class Strategies and Asset Management Plans, drawing on the input of two expert engineering firms to enable WaterNSW to more effectively and proactively manage its assets and associated risks into the future
  - dedicated teams, which have been involved in condition assessment, option analysis, design development and cost estimation of candidate projects to enable informed decisions regarding prudent and efficient capital investment and delivery
  - For technology projects, the introduction of agile digital delivery squads with a product centric approach, strengthening our commitment to DevOps. Internal employees take a larger and leading role in product development with additional capacity added for specialist technical skills on advanced technologies

- improved integration between digital delivery and business ownership, producing a better fusion of business technologists who deeply understand the work on the ground, together with dedicated digital experts who deeply understand the configuration and architecture of the corporate systems.
- **Program scheduling**, a master schedule of all potential infrastructure capital works was developed to inform decisions about a realistic volume of work that could be designed and constructed over the 2025 Determination period (FY26-30), and the WaterNSW resources required to manage the program. Informed decisions were taken to defer projects of lower priority or high risk of delay, or where potential constraints were identified with WaterNSW or market resources needed to manage and execute specific works.

Our focus on improving our project governance, delivery and scheduling should provide increased confidence to customers and IPART of our ability and commitment to deliver our proposed capital program.

### Continual improvement

Our pricing proposal reflects significant efficiencies built into our revenue forecasts.

To put downward pressure on the costs we can control, we needed to change the way we operated to become a leaner, more efficient, more agile and higher performing business – while creating a greater regional leadership presence.

Over the past 2 years WaterNSW has permanently removed \$19.7 million of operational expenditure from the entire business. This reduction was against a baseline target set in 2022 of \$21.6 million.

Of the \$19.7 million of savings for the entire business, \$17.8 million was specifically against core (regulated operating expenditure) activities. That is, \$17.8 million is the component of the total WaterNSW efficiencies relating to our regulated Greater Sydney, Rural Valleys and WAMC activities. The remaining \$1.9 million in savings is due to non-core activities (including MDBA and non-regulated activities).

Our cost transformation journey has led to **\$89 million** in efficiencies over the 2025 Determination as a direct result of the savings.

We also propose a **cumulative efficiency target of 1% of total operating expenditure per annum** that rises to over 5% in 2029-30 to ensure that customers continue to receive benefit from our transformation program over the next five years and to provide a strong incentive on WaterNSW to continue to find productivity improvements. This provides an additional \$45 million over the upcoming five-year period. The cumulative target aligns with the profile of our cost transformation program that requires up-front investment in many cases, the benefits of which are often realised over time.

Combined with base year savings, the cumulative efficiency target leads to combined savings of **\$133 million** over the upcoming five-year determination period.

Our cost transformation program has enabled WaterNSW to achieve the efficient targets set out in the current determinations. Greater Sydney and Rural Valleys are both expected to experience operating expenditures lower than allowances in this determination period (excluding land tax and self-insurance costs). Our efficiency program is detailed in Attachment 9.



The overall impact of our proposed cumulative savings is that our proposed operating expenditure over the five-year determination period is 10% less than would otherwise have occurred in the absence of our efficiency savings.

Regarding capital efficiencies:

- We have imposed capital efficiency targets tailored to valleys, with \$15.7m embedded in our capital forecasts. Capital expenditure efficiencies are expected to be delivered by:
  - robust needs and options assessment, ensuring that non-capital solutions are considered
  - value engineering during design development
  - procurement efficiencies through intelligent project packaging that may enhance competition or generate economies of scale or geographic synergies for construction contractors
  - WaterNSW project management efficiencies via allocation of low complexity projects to Regional Delivery teams
- Capital efficiency targets were generated by reducing cost estimates for candidate projects and fishway projects by the following efficiency factors:
  - 2.5% for small rural valleys, being those with FY26-30 capital expenditure <\$5m (Border, Lowbidgee, North Coast, Peel, South Coast).
  - 3.0% for large rural valleys, being those with FY26-30 capital expenditure >\$5m (Fish River, Gwydir, Hunter, Lachlan, Macquarie, Murray, Murrumbidgee, Namoi).
  - 4.0% for Greater Sydney.

## 1.5 Overall grading self-assessment

Reflecting our ambition for this price submission and for our customers, we have pushed ourselves to deliver a high-quality proposal that puts the needs of customers first and delivers value for money. While there are elements of our proposal that we believe would support an “advanced” or “leading” proposal, we consider that, on balance, our proposal aligns with IPART’s **“standard”** grading.

In arriving at this self-grading, we note that our proposal delivers value for money for customers. This is evidenced by the extensive customer engagement process we have undertaken to identify and embed customer preferences, the actions we have taken to reduce costs within our control, including deferring \$860 million in capital projects. We have also significantly enhanced our deliver capabilities for our capital program and have proposed \$133 million in efficiency savings over the next five years to do what we can to keep costs down.

Our self-assessment has been informed by SECNewgate and our advisors URA which have extensive experience with the development and implementation of the Victorian PREMO model as well as providing contributions to IPART’s 3Cs framework development. Drawing on this independent advice and our own analysis, we consider a “standard” grading to be an accurate reflection of how WaterNSW currently meets the twelve principles under the new 3Cs framework.