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Mr Andrew Nicholls
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

Dear Mr Nicholls

DESIGNING A LEVY FOR REGULATING DAM SAFETY IN NSW

In April 2024, Hunter Water made a submission to IPART's Issues Paper: *Designing a levy for regulating dam safety in NSW*.

Hunter Water indicated in our submission that we have four declared dams and accept the NSW Government and IPART's intent to set a cost-reflective levy consistent with the 'impactor pays' principle – dam owners funding Dam Safety NSW's (DSNSW) activities according to the contribution their dam assets make in driving the need for these regulatory costs.

Hunter Water provided answers to the questions posed in the Issues Paper, and made three key points:

1. It is important that DSNSW is subject to ongoing independent price monitoring or regulation to ensure its costs, and therefore the levy, remain efficient over time.
2. Apportioning the costs based on the consequence category of the dams is the most suitable method for linking the levy to the time and resources spent by DSNSW in undertaking its regulatory activities.
3. IPART should consider how the dam safety levy costs would be recovered by Hunter Water, given the timing of our upcoming pricing proposal.

Hunter Water reviewed IPART's Draft Report: *Dams Safety Levy Review*, published in July 2024.

Hunter Water supports IPART's draft recommendations and is satisfied they address the key points raised in our submission to the Issues Paper.

Our specific comments on the Draft Report are:

- The methodology and process used to estimate DSNSW's efficient costs seems reasonable and fit-for-purpose, given the scale of the annual budget, the availability of information, and the various considerations and comparisons made by FTI Consulting.
- Hunter Water strongly support IPART's recommendation that DSNSW's costs should be reassessed in three years to ensure the levy remains appropriate, and after DSNSW has fully transitioned to the new regulatory regime.
- Hunter Water are pleased that costs will be apportioned based on the consequence of the dam as we consider this to be the most efficient and equitable approach to setting the levy.

- Based on the draft cost of the levy (somewhere in the vicinity of \$50,000) for Hunter Water, we expect to be able to absorb this cost within the regulated expenditure allowances set by IPART in its price review by reprioritising other expenditure. Should the NSW Government decide to implement the levy, it provides another example of the cost pressures facing water businesses that are ultimately borne by our customers.
- The Dams Safety Act 2015 ('the Act') appears likely to drive a high level of investment in improving dam safety across NSW. Hunter Water has recently completed risk assessments that indicate substantial works at our two major water supply dams – Grahamstown Dam and Chichester Dam – will be required to reduce safety risks.

Clause 9 of the Dams Safety Act 2015 indicates the functions of DSNSW and includes carrying out research, making recommendations to the Minister, providing guidance on compliance and cost-benefit analysis, and applying best-practice regulatory principles.

Hunter Water encourage DSNSW and the NSW Government to ensure a suitable level of research, critical analysis, and continual improvement is being undertaken at a state-level by monitoring the design, implementation, and costs and benefits of the legislation and regulations – refining these as needed to ensure it is fit-for-purpose and driving net beneficial outcomes for society.

Responses to the targeted questions in IPART's Issues Paper

1. Do you agree with the categories of costs we included in the levy? Are there any other costs you consider are not driven by declared dam owners?

Hunter Water support IPART's assessment.

2. Should overhead costs be shared equally by all dam owners, or should they be apportioned on the same basis as labour costs (i.e., based on consequence category)?

There is a relationship between the level of a business's direct costs and the level of corporate overheads required. The same factors that drive the need for direct costs (e.g. consequence category) influence the scale of overheads needed to support those activities. Hunter Water support IPART's draft approach of apportioning overhead costs based on consequence category.

3. Do you expect that the regulatory support you require from DSNSW will reduce as dam owners become more familiar with the new regulatory framework?

Yes, Hunter Water would expect the education costs DSNSW incurred in 2023-24 to reduce over time. However, we believe effective best-practice regulation involves dam owners and regulators working closely together to ensure the outcomes of the Act are delivered. Total costs might not decrease – it may be efficient for time spent by DSNSW on education to shift to other activities.

4. Is a levy based on consequence category a fair way of allocating costs between dam owners?

Yes, Hunter Water support this approach.

5. What factors should a future review of the levy consider? Are there any measures of dam owner's regulatory performance that should be captured at a future review?

Hunter Water support the considerations IPART explores in the Draft Report.

6. Are there any additional challenges around cost recovery that we have not identified and considered in the Draft Report?

Not from Hunter Water's perspective.

7. How frequently should the levy be reviewed? What factors should be considered at these reviews?

Hunter Water strongly support IPART's recommendations on this matter.

8. If a future review of the levy implements a performance adjustment (i.e. an adjustment to the levy based on a dam owner's regulatory compliance), how would this influence your activities as a dam owner?

Hunter Water are committed to complying with the regulation. An additional financial incentive related to the size of levy is unlikely to further motivate or demotivate our behaviour. The levy costs are far outweighed by other considerations Hunter Water make including the safety of the community, our reputation, and the relative costs of potential works to address dam safety issues.

9. What performance metrics should DSNSW publicly report on?

Hunter Water does not have a view on this matter.

10. What information would give you confidence that DSNSW is using its funds efficiently?

Periodic independent review of the levy.

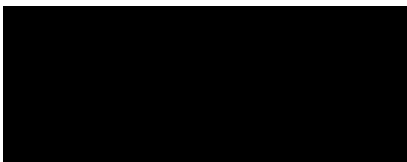
Hunter Water thank IPART for the opportunity to contribute towards this review.

Should you have any questions about our response, please contact:

Benjamin Silberberg
Group Manager Economics



Yours sincerely,



JENNIFER HAYES
Executive Manager Finance and Business Performance