

17 May 2024

Mr Ben Strate
A/ Chief Executive Officer
Independent Pricing and Regulatory Tribunal of NSW
By email: [REDACTED]

Dear Mr. Strate

Thank you for the opportunity to respond to IPART's Draft Decision on WaterNSW's application to vary WaterNSW's 2024-25 Murray Darling Basin (MDB) regulated charges in accordance with the *Water Charge Rules 2010 Cth* (WCR). Our arguments for seeking a variation to the MDB regulated charges are set out in our application, and for the sake of brevity are not repeated in this submission.

Whilst we are supportive of IPART's role in exercising its discretion in deciding whether or not it is reasonably necessary to update the MDB regulated charges for the most recent volumes forecast, there is an inconsistency in IPART's Draft Decision that we suggest should be revisited.

IPART's 2024 Draft Decision refers to the need to demonstrate a 'sustained shift' in water sales as follows, placing undue weight on whether the 2024-25 water sales will be materially different to the 20-year rolling average as a point estimate, and whether the 2020 to 2023 actual water sales appear to be higher than the 20-year rolling average used to set prices:

We have found no evidence of a sustained shift in water sales. Actual water sales over 2020-21, 2021-22 and 2022-23 and forecast water sales for 2023-24 appear to be higher than the forecast used to set prices in the 2021 Determination. We do not have evidence to suggest that water sales in 2024-25 will be materially different to the forecast used to set prices in the 2021 Determination.

Such arguments appear to be based on short term forecasts and do not take into account the intent of the 20-year rolling average which is intended to ensure WaterNSW could recover its prudent and efficient costs over time (as reflected by the 20 data points that make up the rolling average estimate) and applied at subsequent determinations. Further, IPART does not appear to have considered whether WaterNSW is likely to recover what IPART determined was the prudent and efficient revenue allowance over the determination period. WaterNSW provided evidence that we are likely to under-recover our revenue allowance, which suggests variable charges should be increased in 2024-25.

In its 2018-19 IPART Draft Decision, IPART appeared to have applied a different threshold where it stated that:

it is difficult to establish whether the most recent year of data (in this case demand data for 2016-17) would be more representative of the level of demand expected in the next year (in this case 2018-19) compared with the 20-year average used to set prices in the price determination. In this case, we do not consider there to be strong evidence to suggest that demand data for 2016-17 provides a materially better estimate of forecast demand for 2018-19 compared with the 20-year average used to set prices in the 2017 Determination.

In this decision, IPART focused on whether the most recent year of actual data is more representative of expected future demand in the next year for the purpose of deciding whether or not to update the 20-year rolling average with the most recent actual data.

We argue that if the 2018-19 test was applied to the 2024 Draft Decision, then the most recent years of actual data included in our 2024 Application and 20-year rolling average calculation (i.e. up to the 2022-23 actuals) is more representative of the level of future expected demand in the next year (2024-25) and hence the 20-year rolling average calculation should be updated with the most recent sales data for setting the usage charges in the 2024-25 year (in particular actuals up to 2022-23 actuals).

This is the 6th IPART annual review of MDB regulated charges under the WCR. In each review, IPART has decided not to update the MDB usage charges for minor/gradual updates to the 20-year rolling average which we believe would have served the long-term interests of customers whilst ensuring WaterNSW has a reasonable opportunity to recover its prudent and efficient costs under a high variable charge structure set by IPART.¹

These decisions follow the ACCC decisions, in which the ACCC applied the same set of principles in deciding that it was both within the customers' and the utility's long term interests to update the 20-year rolling average on an annual basis.

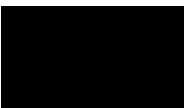
Now that this is the final IPART WCR Annual Review before the MDB regulatory powers are handed back to IPART, we encourage IPART to revisit its Draft Decision on this matter.

We maintain, consistent with our application, that updating 2024-25 variable charges for changes in the 20-year rolling average would lessen the price and bill impact for customers in the MDB valleys at the 2025-30 determination compared with carrying over an adjustment to 1 July 2025, while restoring the variable charges to a level consistent with the 20-year rolling average adopted by IPART at the 2021 determination.

Ensuring a revenue stream that more closely aligns to IPART's assessment of efficient costs is in the long-term interests of customers as it is more likely than the alternative to enable WaterNSW to effectively plan and manage sustainable, secure and healthy water resources for the benefit of water users and the community.

Please don't hesitate to contact me if you have any questions regarding this application.

Yours sincerely



Andrew George
Chief Executive Officer

¹ Including the volatility allowance which WaterNSW considers does not provide adequate compensation for the volatility risk faced under a high variable tariff structure and 20-year rolling average volumes forecast.