

18 December 2017

1 Access to infrastructure services under the WIC Act

The *Water Industry Competition Act 2006* (WIC Act) provides for private sector participation and competition in the NSW water and wastewater industry. To facilitate this, infrastructure services can be 'declared' under Part 3 of the WIC Act, meaning that a third party must be granted access to these services subject to certain criteria and the establishment of an access agreement or determination. In addition, service providers can seek to establish voluntary access undertakings, where they proactively put forward the terms, conditions and prices under which access seekers would be provided access.

IPART's role under Part 3 of the WIC Act

The Independent Pricing and Regulatory Tribunal (IPART) has several roles under Part 3 of the WIC Act, including:

- ▼ assessing and making recommendations on applications for coverage declarations for infrastructure services
- ▼ assessing and approving voluntary access undertakings
- ▼ arbitrating, or appointing an arbitrator for, certain disputes over access to infrastructure services, and making access determinations to resolve such disputes.

2 Cost allocation manuals required for declared services

Under the WIC Act, the provider of a declared service must develop a cost allocation manual, which sets out how the service provider will establish and maintain separate cost accounts for each of its declared services.

IPART may approve this cost allocation manual or may require it to be amended and resubmitted for approval. Once approved, a service provider may only vary its cost allocation manual with IPART's consent.

The purpose of cost allocation manuals

Cost allocation relates to the attribution and allocation of a service provider's direct and indirect costs to its declared and other services. Cost allocation manuals aim to ensure that costs are transparently and appropriately allocated and apportioned. A cost allocation manual required under Part 3 of the WIC Act must set out the basis on which a service provider establishes and maintains separate cost accounts for each of its declared services.¹

We consider a key purpose of a cost allocation manual is to improve transparency and help overcome information asymmetry between the service provider and potential access seekers. This can facilitate the commencement of negotiations between the service provider and access seeker on the terms of access.

We consider that access pricing should allow for efficient new entry and competition in the supply of potentially competitive services upstream and/or downstream of the declared services.

¹ WIC Act s 42(2).

The cost allocation manual should therefore demonstrate that the costs allocated to a service provider's declared services:

- ▼ reflect efficient, attributable costs, and
- ▼ do not unduly favour the service provider in the supply of potentially competitive services.

Finally, a transparent cost allocation manual would assist an arbitrator (eg, IPART) if it were called upon to arbitrate a dispute between a service provider and an access seeker, and consequently was required to make a determination on the terms of access.

The purpose of IPART's cost allocation guide

The cost allocation guide is intended to assist service providers in preparing their cost allocation manuals for their declared infrastructure services. The guide outlines our views on:

- ▼ principles that should be used by a service provider in allocating costs and developing its cost allocation manual
- ▼ what a service provider's cost allocation manual should include, as a minimum.

3 Current declared services

Three of Sydney Water's sewage reticulation networks (Bondi, Malabar and North Head) have been 'declared' from the outset of the WIC Act (both conveyance and interconnection services).

As per the requirements of the WIC Act, Sydney Water developed a cost allocation methodology and a manual, which sets out how it will allocate costs and maintain separate accounts for its declared infrastructure.² Sydney Water is currently in the process of finalising this manual, and incorporating amendments that we have previously requested.³ We expect Sydney Water to submit its revised cost allocation manual for approval shortly after we have released our final cost allocation guide.

4 Stakeholder feedback on the Draft Cost Allocation Guide

We are seeking input from stakeholders on all aspects of our Draft Cost Allocation Guide, which supersedes the 2008 draft version of the guide.⁴ The Draft Cost Allocation Guide is prepared under Section 92 of the WIC Act.

² The WIC Act requires that, within 3 months after an infrastructure service becomes the subject of a coverage declaration, the service provider (Sydney Water) must submit a cost allocation manual to IPART in relation to that infrastructure. Sydney Water's sewerage reticulation networks for North Head, Bondi and Malabar were 'declared' infrastructure services under the WIC Act from the outset of its commencement on 8 August 2008. Sydney Water submitted its cost allocation manual for its declared services to IPART on 7 November 2008.

³ IPART did not approve Sydney Water's 2008 cost allocation manual and required that Sydney Water amend the cost allocation manual to include further information about its cost allocation methodology. Sydney Water elected, in accordance with IPART's suggestion, to delay resubmitting its cost allocation manual, given reconsideration of price structures for retail sewerage services that was being conducted at the time.

⁴ We published a Draft Cost Allocation Guide in 2008. That guide is superseded by our 2017 Draft Cost Allocation Guide.

We are particularly interested in stakeholder views on following aspects on the cost allocation guide:

- ▼ the content, level of detail and clarity
- ▼ the principles to be applied in developing cost allocation methodologies
- ▼ the contents and level of detail service providers are required to include in their cost allocation manuals
- ▼ the requirements in relation to the service providers cost allocation governance arrangements, and
- ▼ any other matter stakeholders consider relevant to IPART's cost allocation guide.

The timelines for the review

The timeline for the review of our cost allocation guide is as set out in Table 1.

Table 1 **Timeline for review of cost allocation guide**

Item	Date
Release Draft Cost Allocation Guide	Monday, 18 December 2017
Submissions on Draft Cost Allocation Guide due	Monday, 29 January 2018
Release Final Cost Allocation Guide	Mid-March 2018

Making a submission

IPART invites written comment on the Draft Cost Allocation Guide and encourages all interested parties to provide submissions addressing the matters discussed. Submissions can be made electronically or by mail. See our website www.ipart.nsw.gov.au or page iii of the Draft Cost Allocation Guide for more information on how to make a submission.