

IPART Draft Cost Allocation Guide

Hunter Water Corporation Review

Hunter Water considers that the development of a cost allocation guide is a positive initiative for providing clarity to all parties about defining a service provider's costs and facilitating the administration of possible future access agreements.

The guide may benefit from some worked hypothetical examples of cost allocation, say in sections 2.3, 4.2, 4.3 and 4.4.

In section 1.3, the first paragraph should refer to a "service provider" rather than a "regulated business". This is because it is conceivable that not all service providers will be the current regulated businesses. Also the term "regulated business" is not used elsewhere in the guide.

Hunter Water agrees with the review provisions in section 2.6. However, this provision makes no reference as to how the outcome of any review of the cost allocation methodology should be translated into a change of access prices. It is appreciated that this is difficult to address in the manual because changes in access prices will be subject to the price change and cost review provisions of any access agreement between the service provider and the access seeker. Nevertheless, while section 2.6 stipulates the maximum period between reviews of the cost allocation manual, such reviews may be of questionable value if cost allocation changes cannot be passed on through access prices. This begs the question as to whether there needs to be complementary requirements (not necessarily in the cost allocation manual) about reviews of access prices and for these to be linked in time to reviews of the cost allocation methodology.

Hunter Water considers the accuracy of the manual and intention to comply with the manual is a management rather than a corporate governance matter. In this light, the "signed statement" requirement for the cost allocation manual proposed in section 3 should require a signed statement from the Chief Executive Officer, not from Directors.

Hunter Water Corporation
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