

Date	02/12/2016
Title	Supplementary question and response – Inquiry into the augmentation of water supply for rural and regional NSW

Supplementary Question

Question from Mr Scot MacDonald MLC

Will the review into NSW Water include commentary/analysis of the impact of the monopoly position of the water utilities? Is the absence of competition hindering technology adaption; preparedness for disruption; serving the customer; increasing risk for the Government?

Response

There are essentially two related questions above. We respond to each below.

Will the review into NSW Water include commentary/analysis of the impact of the monopoly position of the water utilities?

IPART is currently reviewing WaterNSW's prices and its operating licence. These are two separate, but related reviews, involving public consultation and being conducted over 2016-17.

The price review will result in IPART determining new maximum prices to apply to WaterNSW's **rural** bulk water services (previously provided by State Water Corporation) from 1 July 2017 for a period of up to four years. This follows IPART's 2015-16 review of WaterNSW's prices for its Greater Sydney bulk water services (previously provided by the Sydney Catchment Authority), which determined maximum prices to apply to these Greater Sydney services from 1 July 2016 for a period of four years.

The operating licence review will result in IPART recommending to the Minister for Lands and Water the terms and conditions of WaterNSW's new operating licence, which is expected to apply for a period of 5 years from 1 July 2017 to 30 June 2022.

At this stage, it is not expected that these reviews will include explicit commentary or analysis of the impact of the monopoly position of WaterNSW. However, IPART's approach to regulating WaterNSW's prices and recommending the terms and conditions of its operating licence (as well as those prices and licences of other water utilities we regulate) is to seek to ensure that WaterNSW is operating as efficiently as possible. That is, IPART seeks to regulate to protect against any potential adverse impacts of monopolies and to replicate, as much as possible, the outcomes of a competitive market.

For example:

- ▼ We aim to set maximum prices to reflect the prudent and efficient costs of delivering WaterNSW's services, not necessarily WaterNSW's actual costs.¹ This includes an allowance for the efficient costs of the utility complying with its broader regulatory requirements (eg, environmental regulation).
 - The regulated utility then has an incentive to match or even out-perform (ie, reduce its costs below) IPART's assessment of efficient costs over the term of the regulatory period (often four years).
- ▼ Similarly, the Operating Licence ensures the utility is performing and providing services at a level consistent with the expectations of its customers and, where applicable, the broader community – as would be expected in a competitive market.

Is the absence of competition hindering technology adaption; preparedness for disruption; serving the customer; increasing risk for the Government?

IPART's regulatory role largely reflects the following:

- ▼ water utilities (or large parts of their operations and services) are often considered natural monopolies
- ▼ the potential adverse impacts of monopolies, in the absence of effective regulation.

As outlined above, IPART's approach to regulation is aimed at mitigating any potential adverse impacts of monopoly water utilities. We seek to ensure the regulated utilities are as efficient as possible, provide appropriate service levels to customers, and do not create undue risk for the Government.

¹ In setting the expenditure allowance, we often include ongoing efficiency adjustments – as would be expected in a competitive market.