

# A I T H E R

WATER UTILITIES AND INFRASTRUCTURE

## IPART's new regulatory framework

Economics | Policy | Strategy | Performance

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# A I T H E R

## Make better decisions

Aither exists to help governments and business make better decisions about globally significant issues.

### Consulting areas



Water Policy & Management



Water Utilities & Infrastructure



Water Markets



Resilience & Adaptation



Corporate Water

### Advisory Services



Economics



Strategy

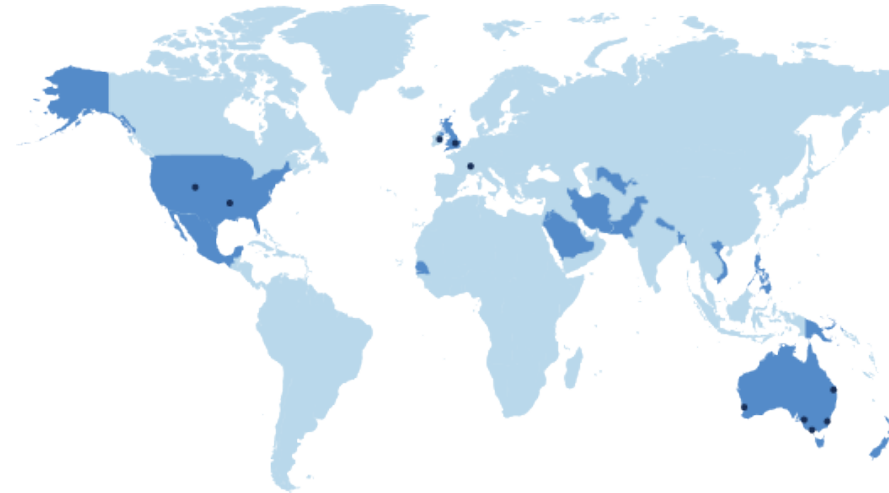


Policy



Performance

Over **300** clients with projects across **14** countries



Our global team and impact

- Projects
- People

### Our advantages

#### Sector knowledge

We know the issues, the people and the systems

#### Client service

We are easy to work with and committed to delivering great outcome

#### Integrated expertise

Our multidisciplinary thinking helps join the dots and turn water challenges into opportunities

### Clients

National, state and local governments

Intergovernmental organisations

Water utilities

Economic regulations

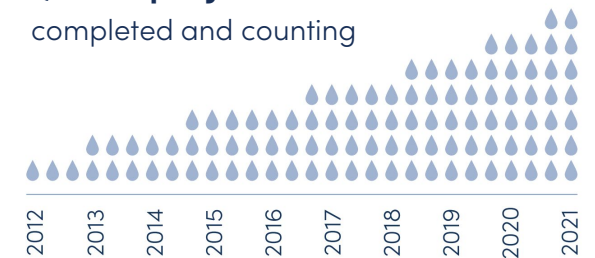
Large agribusinesses and investors

NGOs

Emergency management agencies

### 1,000+ projects

completed and counting



**10 YEARS**  
of providing outstanding service



# New regulatory framework for water

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IPART recently released its Final Report outlining a new regulatory framework intended to improve the way prices are set for regulated water utilities. This approach is a shift away from the current approach focused on efficient costs to meet a minimum level of service, to one that more broadly promotes customer value.

IPART's proposed framework focuses on customers, costs, and credibility – which is referred to as the “3Cs”.

- **Customers** | Businesses are focused on identifying and delivering customer outcomes, including broader community and environmental outcomes.
- **Costs** | Businesses demonstrate they are delivering these outcomes efficiently and sustainably.
- **Credibility** | Businesses are accountable for delivering on the outcomes that customers want. Pricing proposals contain concrete strategies for monitoring progress and adjusting as needed to ensure plans and outcomes are achieved.

Water businesses will need to demonstrate how well their pricing proposals promote customer value, encourages cost efficiency and whether the proposed outcomes can be credibly delivered. This is done in part through self-assessing whether their pricing proposals meet the 3Cs framework at a **Standard, Advanced, or Leading** level.

The move to a more customer centric regulatory framework is similar to regulatory reforms undertaken in the Victorian water sector and the UK's energy and water sectors



## Assessment against the 3Cs framework and guiding principles

The assessment is not intended to be a simple weighted average of the ‘score’ for each of the 12 principles listed below. Each business will need to identify focus principles for a pricing review to reflect the most important priorities for its customers.



Source: IPART

Pricing proposals that demonstrate improved performance and a program that delivers the services that a business' customers prefer can expect a more streamlined price review.

Where a business proposal is also assessed as Advanced or Leading, IPART will allow the business an up-front financial reward of up to 2.5% of the business's annual revenue requirement.

Where the benefits exceed the costs – proposals (irrespective of grading) – may include financial and service performance incentive mechanisms.

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## Navigating the complexity of the new reforms

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Aither strongly supports an approach that puts customers and customer value at the heart of regulatory decision-making. Water businesses know their customers. They also have a unique insight into the value that customers place on both the delivery of services as well as broader community and environmental outcomes.

IPART's new approach, however, is not without challenges for both the regulator and the regulated. It requires a shift in thinking – towards mutual outcomes and away from transactional efficiency.

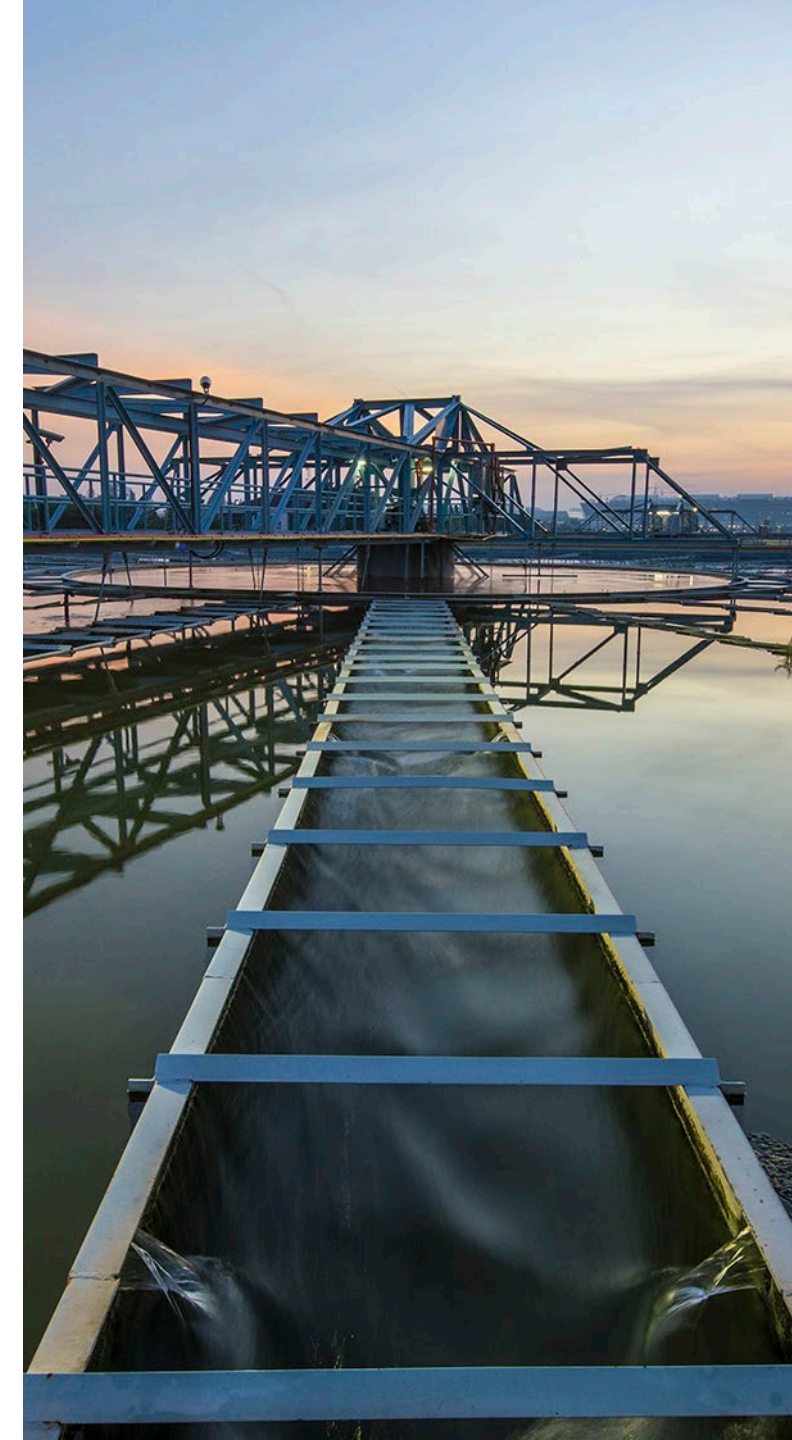
Some of the key challenges Aither see as fundamental to the success of the new framework in encouraging the delivery of long-term customer value are:

**Customer centricity** | engaging with customers should not be about the “cost of one more coffee”. Good customer outcomes are broader than determining efficiency. Understanding the outcomes customers value requires genuine ongoing engagement over multiple regulatory periods. It is not a “one-off” engagement process.

**Regulatory trust** | the framework requires water businesses to put their best foot forward in delivering a quality proposal. That is, undertaking the sort of analysis and review that challenges the status quo and delivers real value to customers over the longer-term. Without trust and a consistent longer-term view between the regulator and the water businesses, delivering on this approach will be difficult.

**Long-term value and the risk trade-off** | water businesses already plan for the delivery of services to customers over the long term. Water assets tend to have very long lives and planning for future requirements needs to happen well in advance. To enable the delivery of longer-term value requires further consideration of the ownership of certain risks, as well as the tolerance for failure.

**Consistency and ownership of proposal** | any proposal should be fully aligned with the same outcomes, goals and metrics across the proposal and business. A well-developed pricing submission requires an understanding of the key priorities across the business and a clear message as to how customer value is being delivered, as well as strategies for ensuring consistency with those goals.



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## Why Aither

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### **Integrated expertise combining economics, policy and strategy**

We combine exceptional investment appraisal, pricing and regulatory economics skills with a comprehensive understanding of the policy and operating environments which govern the water sector. Aither's purpose is to help our clients make better decisions. We are able to do this by combining valuable skillsets across various disciplines that ensure a holistic approach to problem-solving, delivered in a way that is understandable to all stakeholders.



### **We know what governments look for when assessing pricing submissions**

Our experience in assisting businesses under both the Victorian PREMO framework as well as our mix of strategy, economics and policy skills and deep understanding of the of the water industry mean Aither is well placed to assist businesses in navigating the complexity of these new reforms. We understand state and national economic regulatory frameworks and regularly advise utilities, governments, infrastructure bodies and regulators.



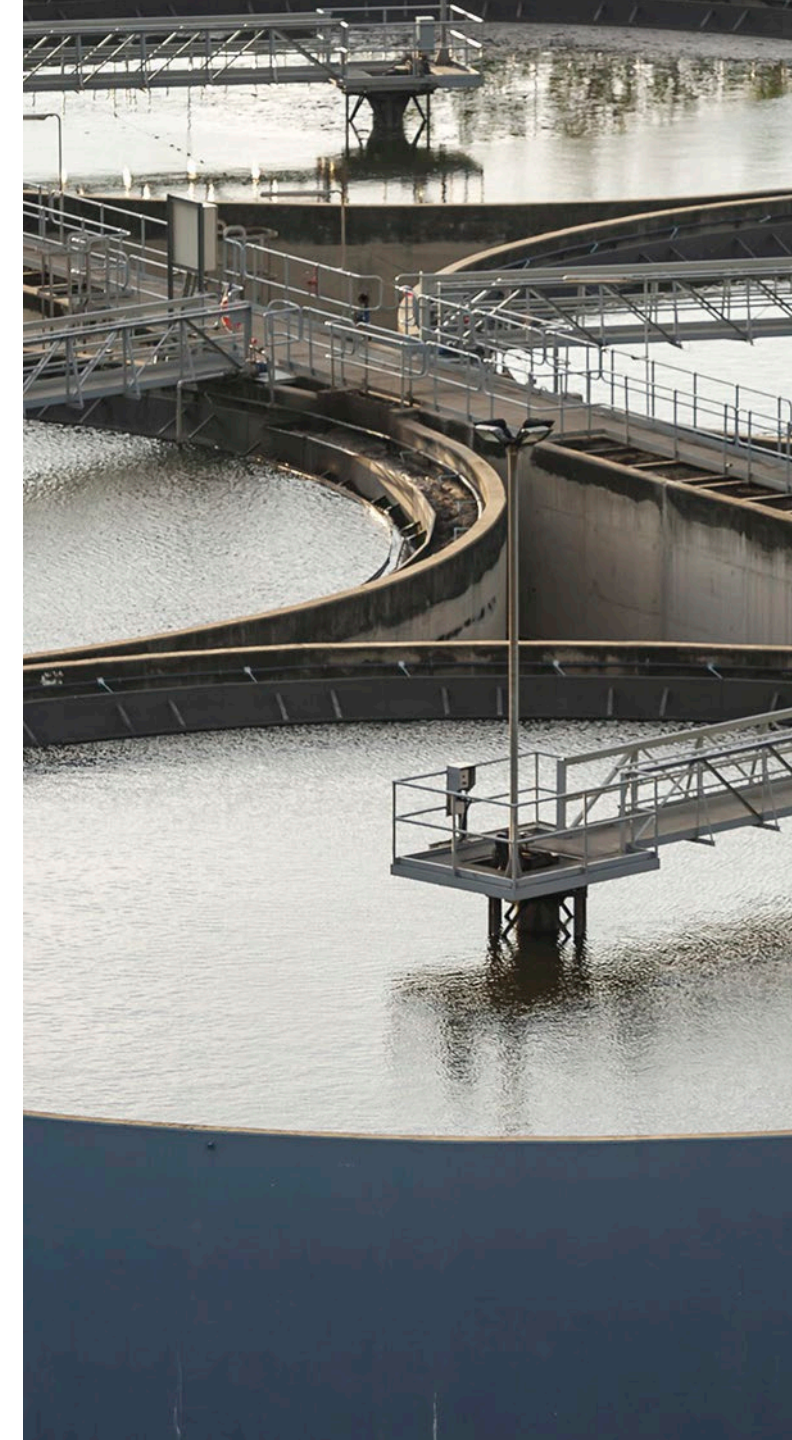
### **Experts in economic and regulatory review**

Aither are experts in assisting business with operating expenditure, capital expenditure and demand forecasts to support the development of pricing submissions. We have provided expert advice on tariffs and tariff reform ensuring proposed tariffs met the requirements of the relevant pricing principles. Our comprehensive experience of regulatory best practice across jurisdictions gives us a unique understanding of the challenges facing the water sector and long-term opportunities.



### **Articulating and measuring customer outcomes**

Aither has expertise in supporting water businesses in clearly articulating their desired outcomes, identifying appropriate performance measures and targets, planning programs and actions, and creating a narrative that links customer views and outcomes. Aither has developed tools to assist businesses in measuring the broader value to the community (i.e. environmental, economic and social indicators).



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## Our team – Economic regulation and pricing

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**Tim Ryan**

Associate Director | Melbourne

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Tim Ryan is a leading regulatory economist with 16 years' experience across both water and other utility industries.

Tim is responsible for leading the pricing and economic regulation services within Aither. He has spent the last 15 years in economic regulation, primarily delivering water pricing and regulatory frameworks to improve outcomes for the industry and customers.

Tim's extensive experience involves working as a regulator, within a business and also as a consultant, thereby allowing Tim to provide a holistic approach to considering the potential issues for clients.

He has been responsible for delivering multiple pricing submissions across different jurisdictions and has provided key regulatory and strategic advice to water utilities in relation to the ESC's PREMO framework and IPART's current review of its regulatory framework. Tim has recently been a key advisor in the development of a new economic regulatory framework for a greenfield development in the Middle East.



**Rebecca Love**

Principal | Melbourne

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Rebecca is a Principal at Aither where her specialisation is pricing and economic regulation services.

Rebecca has a deep understanding of pricing and regulatory frameworks which allows her to support clients in the delivery of pragmatic and beneficial outcomes. Rebecca's passion lies in addressing complex problems through the application of economic and public policy principles.

Rebecca's experience covers regulatory reviews, assessing prices and price submissions, preparing business cases, and implementing regulatory frameworks. Rebecca brings strong skills in energy policy and regulatory development, pricing, and stakeholder engagement and management.

Prior to consulting, Rebecca was a Senior Regulatory Analyst at the Essential Services Commission of Victoria. Rebecca led the project team implementing a maximum price for embedded networks, specifically the application of the Victorian Default Offer to different types of exemption and customer categories.



**David Heeps**

Senior Associate | Melbourne

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David Heeps is a highly experienced expert across the water industry with over 40 years' experience.

David has a unique perspective on water policy and economic regulation, having held the position of CEO at the ESC for 6 years, but also having worked in government policy departments, and water utilities.

David has considerable hands-on experience in, and understanding of, the dynamics that occur between those responsible for policy, service delivery and regulation. He has had direct experience considering the role and implications of various water policies from the perspectives of both utility and regulator.

He has been deputy chair of Goulburn Valley Water, and is currently the independent chair of South East Water's customer and community advisory council. David is also consulting to the Water Utilities Branch of DPIE on its review of regional NSW local water utility regulation, developing revised approaches to assessing full cost recovery of local water utilities, and reviewing the Branch's guidance to local water utilities on water usage charges.

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## Our team – Industry and outcome expertise

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**Chris Olszak**

Director | Melbourne

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Chris Olszak is a founding Director of Aither with over 20 years consulting experience. He is one of Australia's leading strategic and economic advisors to the Australian water industry.

Chris has extensive experience in developing and applying infrastructure investment frameworks for proposed water infrastructure investments working for all levels of government across Australia.

Chris is currently leading Aither's strategic advisory and economic appraisal work on three high profile proposed dams in New South Wales. This engagement includes advising on best practice approaches to define service needs, identity and assess a range of infrastructure and non-infrastructure options and identify and mitigate project delivery risks.

In 2014 and again in 2019, Chris provided advice to Infrastructure Australia on developing infrastructure investments appraisal and cost benefit analysis guidelines for water infrastructure.



**Clare Ferguson**

Principal | Melbourne

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Clare specialises in assisting clients to develop compelling and practical outcomes-based strategies, program design and performance systems, as well as undertaking program evaluation and review.

Clare's background as a river and stormwater engineer enables her to effectively navigate the interface between technical water and environmental management, and strategic planning, performance tracking, and evaluation.

She draws on a range of techniques, including futures, foresight, outcome logic and investment logic, to help clients identify and articulate their preferred strategic direction and pathways for achieving it.

Clare has a strong track record of managing complex projects with a focus on collaborative working relationships. She is skilled facilitator, having led many effective engagement processes with diverse stakeholders, including policy, technical and on-ground government staff, landholders and Traditional Owners.



**Kate Maddy**

Principal | Melbourne

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Kate is a water professional with two decades of public and private sector experience working across the water infrastructure life cycle.

Kate is passionate about leveraging her experience working with the water sector and their customers and community, to help clients achieve meaningful environmental and community outcomes.

A collaborative leader, Kate is a strong manager of complex projects, with a demonstrated history of building and leading high performing and innovative multi-disciplinary project teams.

Kate specialises in assisting water corporations and government draw together technical evidence and community and stakeholder insights to structure strategic frameworks and initiatives to meet shared objectives. A skilled facilitator and strategic thinker, she has worked with Boards and Executive Leadership Teams to develop and review corporate strategy.

# Project experience – Pricing and economic regulation

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## 01. Sydney Desalination Plant Review

Aither was engaged by IPART to assist in its review of Sydney Desalination Plant pricing proposal. This engagement involved reviewing key internal and external documentation, analysis of issues and involvement during the review to assist in testing ideas and concepts. This is the final review under the previous regulatory framework with the approach needing to consider both the current framework as well as interactions with the new regulatory framework. Independent Pricing and Regulatory Tribunal, 2022

## 02. Strengthening Victoria's urban water sector

Aither has been engaged by VicWater, on behalf of Victoria's urban water utilities, to explore the potential challenges to the future economic sustainability of the water sector and to develop a long-term platform that will influence a range of decision makers and drive success. The project entails providing a clear and independent assessment of challenges facing the water sector and to unite the sector around a set of long-term opportunities to improve outcomes for customers. It includes modelling the economic impacts of future challenges, and the potential benefits and impacts from options and solutions in response. The project will be used to assist VicWater and its utility members in improving their own performance as well as broader policy outcomes. VicWater, 2020.

## 03. Independent review of Hunter Water's 2019 Pricing Proposal

Aither was engaged by IPART to undertake a review of Hunter Water's proposed operating expenditure, capital expenditure and demand forecasts to support IPART's 2020 Determination. The engagement included:

- strategic review of long-term investment plans and asset management systems
- detailed review of Hunter Water's past and proposed operating expenditures and capital expenditures
- review of the demand forecasts that underpin expenditure and prices
- review of performance against output measures and appropriateness of proposed new output measures.

Independent Pricing and Regulatory Tribunal, 2019.

## 04. Independent review of Goulburn-Murray Water's 2020 Pricing Proposal

Aither was engaged by the ESC to undertake a review of Goulburn-Murray Water's (GMW) forecast capital expenditure, operating expenditure and proposed tariff reform for the 2020 regulatory period. Aither engaged with key GMW staff, reviewed qualitative and quantitative cost information underpinning GMW's proposal. Aither's review informed the ESC's 2020 Determination on the prudent and efficient expenditure for GMW (underpinning the approved revenue requirement) and assisted the ESC to ensure that GMW's proposed tariffs met the requirements of the relevant ACCC and WIRO pricing principles.

## 05. Establishing a new regulatory framework

Aither recently led the provision of strategic regulatory advice on the establishment of a new water sector regulatory framework and institutional arrangements for a significant new greenfield region in the Middle East. This engagement requires Aither to review innovative and best practice regulatory and institutional approaches globally to all aspects of water industry regulation. The engagement involves the consideration of how a regulator should be established, which services should be prescribed for economic regulation, and the regulatory frameworks to be applied (including risk and efficiency incentive mechanisms, tariff structures and pricing controls). Through this research over the last six months, we have found that although the economic regulatory framework for the Victorian water industry is one of the more sophisticated for water industries around the world, there are lessons that can be incorporated from regulatory frameworks in different jurisdictions and industries. Confidential, 2021.

## 06. PREMO attestation advice

Aither's regulatory team provide advice to Yarra Valley Water's Board for its 2018 Price Submission to the Essential Services Commission (ESC) under the PREMO framework to allow the Board to attest to the robustness of the assumptions used and the accuracy of the submission. As a result of this process, significant changes were made to the Price Submission and Yarra Valley Water were subsequently fast tracked through the ESC PREMO framework. Yarra Valley Water, 2017.



# Project experience – Pricing and economic regulation

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## 07. Expert Reviewer for Wholesale Water and Wastewater Price Review

A member of the Aither regulatory team was appointed by IPART as an expert reviewer as part of its review of wholesale water and sewerage prices for Sydney Water and Hunter Water. This advice involved reviewing key internal and external documentation and involvement in staff workshops during the review to assist in testing ideas and concepts.

In addition to the Expert Reviewer role, follow-on engagements included:

- Estimation of system-wide cost impacts of recycled water schemes, and
- Calculation of Reasonably Efficient Competitor costs.

IPART, 2016.

## 08. Framing of Waterways and Drainage Charge

Aither was engaged by Melbourne Water to undertake an economic and regulatory review of alternative options to structuring the Waterways and Drainage charge. This process identified alternative structures, assessed the structures against agreed principles and put forward recommended options for further consideration. This was used as the basis for Melbourne Water's approach to Waterways and Drainage Charges in its recent pricing submission. Melbourne Water, 2020.

## 09. Tariff rationalisation

While Tim Ryan was with QUU, he co-led a project to investigate the rationalisation of tariffs. This investigation considered the different tariff structures available, the likely impact (from both internal and external – customer – perspective) and the timing for any potential tariff changes. This project involved considerably detailed analysis of potential customer impacts, the ability to effect such a change to the tariff structure and significant involvement with the Board and Board Committees.

## 10. Tariff reform assistance

Aither are providing ongoing assistance with tariff reform. This assistance involves reviewing of information prepared to date, identifying further actions and information that may be required and preparing a project management plan to successfully deliver the reforms. Western Murray Irrigation, 2021.

## 11. Advice on cost sharing and allocation frameworks

Aither was engaged by the NSW Environment, Energy and Science (EES) to provide advice on IPART's WaterNSW Issues Paper. The advice was designed to focus on understanding key cost sharing and allocation issues, potential implications for EES and key considerations on how to respond and progress key issues. NSW Environment, Energy and Science, 2021.

## 12. Private sector competition in the WA water service industry

Aither was engaged by DWER to undertake a review and analysis of potential options to improve the arrangements for private sector entry of water service providers in WA. Aither reviewed arrangements in Australia and abroad, designed an assessment framework and presented an analysis of potential options for change. WA Department of Water and Environment Regulation, 2019.

## 13. Review of SA alternative water instruments and pricing

Review of institutional arrangements that support the use and uptake of alternative water supplies in SA. Aither developed an assessment framework with guiding principles, a roadmap based on economic principles and experience of competition in the water industry to inform the review of the SA Water Industry Act. SA Department for Environment and Water, 2019.

## 14. Assistance with review of performance indicators

Aither was engaged to provide assistance to IPART in delivering its Issues Paper for the commencement of its review into performance indicators for public water utilities and WICA utilities. The project required the consideration of all performance indicators, resulting in a key focus on customer satisfaction indicators that have been developed in other jurisdictions. IPART, 2018.

## 15. Advice on avoidable costs

Aither provided regulatory and pricing advice to a private developer. The advice was focused on understanding the details of IPART's avoided cost framework for recycled water schemes. Private developer, 2020.

# Project experience – Industry and outcomes

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## 16. Social value framework for metropolitan water utility

A metropolitan water utility developed a draft Social Value Framework that included indicators to measure the broader value (i.e. environmental, economic and social) that the utility provides to the community through its water and sewerage services. The utility engaged Aither to review and provide advice on the Social Value Framework, including advising on approaches to monetise social, environmental and economic benefits. Confidential client, 2019.

## 17. Improving customer outcomes for the next pricing submission

Victorian water businesses are expected to reflect community, social and environmental outcomes in their pricing submissions through application of the Essential Services Commission's [PREMO water pricing framework](#). Many businesses experienced challenges in applying PREMO for the first time, particularly in relation to articulating and measuring customer outcomes. Aither worked with Gippsland Water to understand how the business can improve its outcomes and performance measures for the next pricing submission. Our advice included preparing a template and guidance that will support Gippsland Water in clearly articulating its desired outcomes, identifying appropriate performance measures and targets, planning programs and actions, and creating a narrative that links customer views and to outcomes. Gippsland Water, 2021.

## 18. Baseline evaluation for the Marine Estate Management Strategy

The Marine Estate Management Strategy (MEMS), released in 2018, provides the overarching framework for coordinated management of the NSW marine estate and represents a new integrated, holistic and collaborative approach to managing the New South Wales marine estate. After facilitating the development of the integrated monitoring and evaluation framework for the MEMS in 2019, Aither was engaged to undertake the baseline / formative evaluation of the MEMS. Aither used a mixed methods approach to assess progress and achievements towards outcomes and delivery across the nine initiatives that comprise the MEMS. The evaluation findings and recommendations will support continued improvement in delivery of the MEMS, inform future planning, and support future funding bids. Department of Planning, Industry and Environment (NSW), 2021

## 19. Water infrastructure targets and metrics

The National Water Grid Authority (NWGA) administers the Australian Government's \$3.5bn National Water Infrastructure Development Fund (NWIDF). The NWGA engaged Aither to develop options for targets and metrics to administer the NWIDF and measure success. A proof-of-concept excel-based reporting tool was also developed. Aither applied a Monitoring, Evaluation, Reporting and Improvement (MERI) Framework to draft a long-list of potential metrics that link to benefits provided by water infrastructure projects. The list was refined in consultation with the NWGA. The final metrics and targets were accepted by Cabinet for future monitoring and evaluation of program outcomes. National Water Grid Authority, 2021.

## 20. Input to response to IPART paper: Promoting a Customer Focus

The Independent Pricing and Regulatory Tribunal's (IPART) Promoting a Customer Focus Discussion Paper proposes a new approach to pricing reviews and proposals for water utilities in NSW focussing on customer outcomes. Aither assisted Hunter Water in preparing its response to IPART's discussion questions relating to whether IPART should track outcomes, which outcomes should be tracked, and whether outcomes would vary by business. We prepared our advice to Hunter Water based on our experience working with government agencies, particularly in the Australian water and environment sectors, to develop and implement outcomes and performance frameworks, and our insights from Victoria's implementation of the Essential Services Commission's (ESC) PREMO water pricing framework. Our advice was provided as an appendix to [Hunter Water's submission](#). Hunter Water, 2021.

## 21. Urban Water Strategy

Aither was engaged to prepare Barwon Water's Urban Water Strategy, which sets out its approach to delivering water security and other strategic outcomes over a long-term planning horizon. Aither's engagement included facilitating identification of the objectives and strategic vision for the strategy; development of an Investment Evaluation Framework and Adaptive Management Framework that supports decision-making to deliver customer service levels and expectations optimally; and drafting the strategy document itself. Barwon Water, 2016-17.