

# Review of the 2023 Victorian water price reviews

How effectively did the 2023 water price review process and outcomes deliver on the objectives of PREMO?

8 August 2024

## Purpose of this report

The Essential Services Commission (ESC or commission) engaged farrierswier to undertake an independent review of the 2023 water price review.

The commission published its final decisions for 14 Victorian water businesses in June 2023. The 2023 price review was the second time the commission applied its PREMO water pricing framework to these businesses and the first time it applied the Performance element of PREMO to any water businesses' price review.

This report summarises our key findings and insights. It is a summary of our full report, which contains more details of the analysis and feedback that supports our findings.

## Our scope and methodology

The scope of our review covered:

- an assessment of how well the 2023 price review delivered on the objectives of the PREMO framework, including business-specific factors that may have helped or hindered achievement of these objectives; and
- feedback on the commission's processes and approach to the 2023 water price review and identifying what worked well and any areas for improvement.

We also reviewed the decisions the commission published in June 2024 for the 2 water businesses covered by the 2024 water price review and interviewed those businesses. Our findings are generally also applicable to the 2024 water price review.

Our review was informed by interviews and surveys and our own qualitative and quantitative analysis.

Farrierswier directors Richard Owens and Robert McMillan undertook 24 interviews with water businesses involved in the 2023 and 2024 price reviews, stakeholders who made submissions to the 2023 price review, government officials, commissioners and commission staff. We carried out online surveys of the businesses that were part of the 2023 price review and people who made submissions to the 2023 price review. We also met with various consultants and the Water Services Association of Australia. Thank you to everyone who participated in our interviews and surveys.

This report records the feedback we received. We have not assessed the accuracy of the comments that were made to us. The inclusion in this report of anonymised quotes from the surveys or interviews does not indicate that we agree with those comments. The fact that several stakeholders held a certain view on an issue is instructive even if that view may not be considered entirely accurate by others. For example, it may indicate areas that could benefit from clearer commission guidance to avoid confusion or misunderstandings in future price reviews, or where the contrasting practices of different water business led to different price review outcomes for those businesses. We understand that the commission will assess this feedback when considering its approach to future price reviews.

## Outcomes of the 2023 price review

The commission regulates Victorian water businesses under the PREMO framework: **P**erformance, **R**isk, **E**ngagement, **M**anagement and **O**utcomes. The 2023 water price review process applied to 14 water businesses. 2 water businesses were part of the 2024 water price review.

Under PREMO, each water business and the commission rate the business' price submission as basic, standard, advanced or leading. In 2023, 9 businesses were rated standard and 5 rated advanced. In 2024, both businesses were rated standard. PREMO also enables the commission to 'fast-track' high quality submissions. In the 2023 price review, 2 businesses were fast-tracked with early draft decisions.

The 2023 price review process occurred in a challenging environment with most water businesses facing increased costs due to a range of factors and many customers experiencing cost of living challenges. Adjusting for inflation, real prices decreased by around 1% on average in 2024 and then increased broadly in line with forecast inflation. Figure 1 shows nominal price rises in 2024. Figure 2 shows pricing outcomes across the five water regulatory periods to date after controlling for the effects of changes in WACC and the number of years in the regulatory period.

Figure 1: Nominal price changes for year 1 (2023-24)

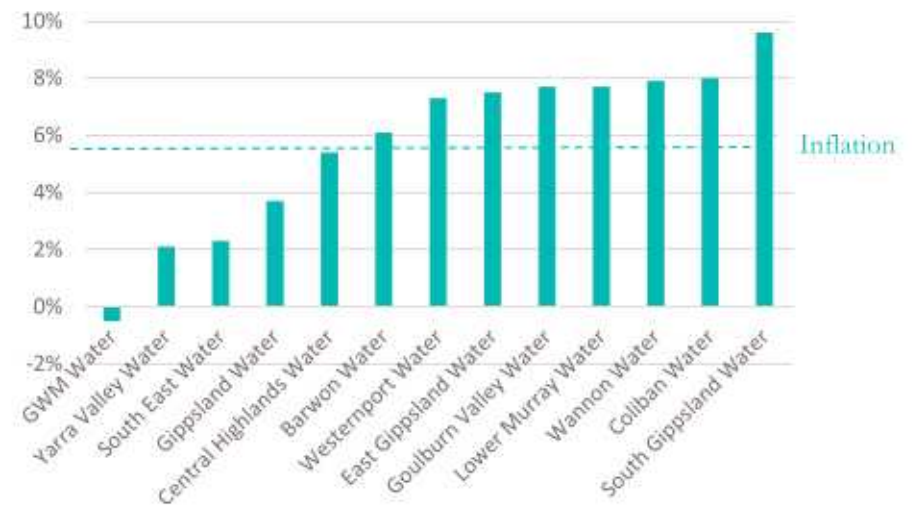
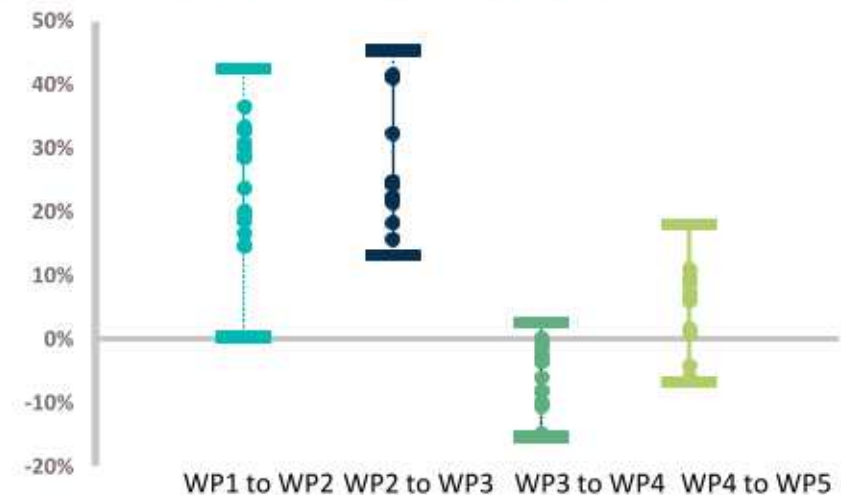


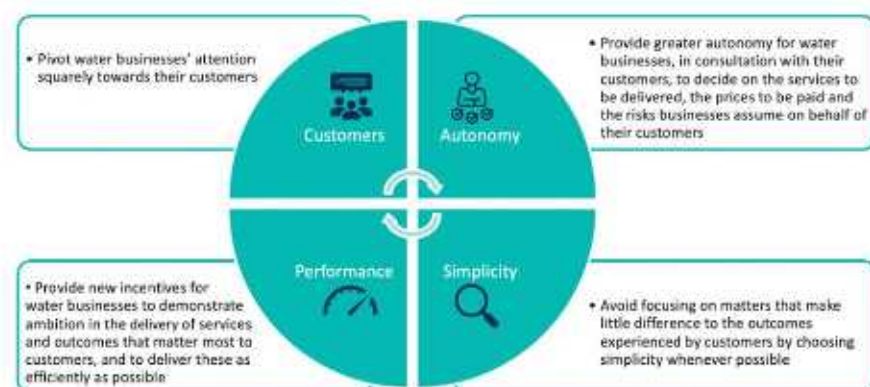
Figure 2: Regulatory period-on-period changes in prices



## Did the 2023 price review process deliver on the objectives of PREMO?

This section summarises our key findings and insights on the extent to which the 2023 price review process delivered on the PREMO’s objectives (see Figure 3). It is based on the outcomes of our interviews, surveys and qualitative and quantitative analysis of the commission’s decisions and other materials.

Figure 3:PREMO’s objectives



There was almost universal support for PREMO across our interviews with water businesses, Victorian government, the commission, people who made submissions to the price review process and consultants who worked in the sector. Almost everyone we spoke to supported the PREMO framework and did not want the commission to move away from it or make major changes.

Although there was strong support for PREMO, most people we interviewed suggested areas in which the practical application of PREMO could be improved in future price reviews, as explained in the remainder of this report.

Stakeholders supported our summary of PREMO’s objectives as set out in Figure 3, which is based on papers the commission published when developing PREMO in 2016. Several stakeholders were not familiar with these original objectives and there could be value in the commission reviewing and restating its current view of the objectives of PREMO and using those objectives to guide any changes it makes for future price reviews.

### CUSTOMERS

We consider that the 2023 and 2024 price review processes were very effective in delivering on PREMO’s customers objective.

#### Customer engagement is now seen by water businesses as a core part of how they operate

Almost everyone we interviewed considered that the engagement element of PREMO has been a success and has delivered on the customers objective. It has led to a much greater focus by water businesses on their customers and improved outcomes for customers.

Customer engagement is now seen by almost all Victorian water businesses as a valuable core part of how they operate and not just something they do once every 5 years to meet the commission’s requirements.

#### Businesses continued to expand how they use customer engagement to inform their price submissions

Almost all stakeholders we interviewed considered that customer engagement had increased dramatically over the last 2 price reviews due to the introduction of PREMO and that this increased engagement had led to better customer outcomes.

In our survey, we asked water businesses to rate how effectively various aspects of the price review process met PREMO’s objectives. The question with the highest

rating was 'How effective do you consider the 2023 water price review process was at having your business focus on customers and engage with customers in developing your proposal'.

Most businesses expanded their customer engagement compared with the 2018 price review, and undertook far greater engagement than in the price reviews before PREMO was introduced. Commissioners and commission staff also commented on the high quality of engagement that was undertaken by several smaller regional water businesses despite their more limited budgets.

There were some exceptions to this positive feedback on engagement in comments in our surveys and interviews.

- People who made submissions considered that some water businesses engaged much more effectively than others.
- New customer contributions was an area where several people felt businesses could have engaged better with some of their customers.
- Some stakeholders considered that water businesses had improved 'how' they engaged, but some businesses struggled to determine 'what' to engage on that would have a meaningful impact on customers.
- There were concerns that the cost of engagement is increasing and that further increases in the scale of engagement are unlikely to be justified.

### **Businesses are developing customer outcomes in consultation with their customers and reporting on their performance against those outcomes**

Consistent with PREMO's Outcomes element, water businesses committed to a range of customer outcomes and associated performance measures and targets as part of their price submissions, with the outcomes informed by customer engagement. This is contributing to meeting PREMO's customers, performance and outcomes objectives by encouraging businesses to focus on delivering the

outcomes that matter most to their customers and transparently reporting on the extent to which they are meeting those outcomes.

### **Businesses expanded their measures to support vulnerable customers**

In response to rising prices for water services and broader cost of living challenges faced by their customers, most water businesses materially increased their support for customers experiencing financial difficulties. Businesses adopted a wide variety of measures to support customers including adopting measures to reduce price rises, increasing direct financial support to vulnerable customers and increasing other customer support measures.

## **PERFORMANCE**

We consider that the 2023 and 2024 price review processes were broadly effective in delivering on PREMO's performance objective, with some areas where the commission could consider refinements to its incentives for future price reviews.

### **PREMO incentivises water businesses to pursue efficiencies and make high-quality price submissions**

#### *PREMO creates incentives for cost efficiency improvements*

Water businesses' responses to our survey indicate that PREMO is effective in incentivising water businesses to pursue cost efficiencies. 36% of businesses said the 2023 price review process had a major effect on the extent to which they pursued cost efficiency improvements and 36% said it made a modest difference.

#### *The PREMO ratings provide useful reputational incentives*

PREMO seeks to provide procedural, reputational and financial incentives for water businesses to provide high-quality price submissions that reflect their best

offer. One of the unique features of PREMO is the process by which each water businesses' price submission is rated as basic, standard, advanced or leading. The ratings system was well-supported and considered to create valuable reputational incentives for some businesses, but the impact varies between businesses.

In our survey, we asked businesses to rate the importance of each of PREMO's reputational, procedural and financial incentives. Reputational incentives were rated as the most important of these three types of incentives as shown in Table 1 below. However, in our interviews most businesses said the reputational effect of PREMO's ratings was relatively short-lived and not as important as other incentives external to PREMO to prepare a price submission that delivered on the needs of the business and its customers.

### Fast-tracking is a very effective incentive and there is likely to be benefit in increasing its use

#### *Fast-tracking is effective at incentivising high-quality price submissions that reflect businesses' best offers*

Many water businesses see fast-tracking as creating valuable procedural and reputational incentives. It can also help deliver PREMO's simplicity objective by reducing compliance costs for businesses and enabling the commission to focus its limited resources where they are most needed.

Although only 2 water businesses were fast-tracked in 2023, many other water businesses told us in the interviews and survey that they had aimed to be fast-tracked and would aim for that again in the next price review.

Figure 4: Reasons why water businesses sought to be fast-tracked



#### *Fast-tracking provided valuable incentives even though only two businesses were fast-tracked in the 2023 price review*

In the 2023 water price review, only 2 businesses were fast-tracked by receiving early draft decisions. Those businesses only received early draft decisions and their final decisions were published at the same time as the other 12 businesses. No businesses were fast-tracked in the 2024 price review.

#### *Water businesses want greater clarity on the criteria for fast-tracking*

A key issue with the current use of fast-tracking is that the water businesses are not clear on the criteria to be fast-tracked. This limits its effectiveness as an incentive. It would be useful for the commission to clarify the criteria and process for fast-tracking. The commission should also consider whether there is scope to increase the use of fast-tracking to provide incentives for high-quality submissions and help achieve PREMO's simplicity objective that the commission focusses its resources on the issues and businesses that need the most attention.

## PREMO’s financial incentives have not had the intended effect on businesses

*Most water businesses are not motivated by the opportunity to obtain a higher return on equity*

PREMO seeks to provide financial incentives for high-quality submissions that represent a water business’ ‘best offer’ by adjusting the business’s return on equity based on its PREMO rating.

The original intent of this incentive was that it rewards a higher level of ambition in price submissions, e.g. taking on a greater level of risk on behalf of its customers or adopting a higher opex efficiency target, for which the businesses is rewarded with a higher return that corresponds to this higher risk. In this way, the increased rate of return may not result in higher overall prices for customers, as it reflects cost savings or improved risk allocation in other areas.

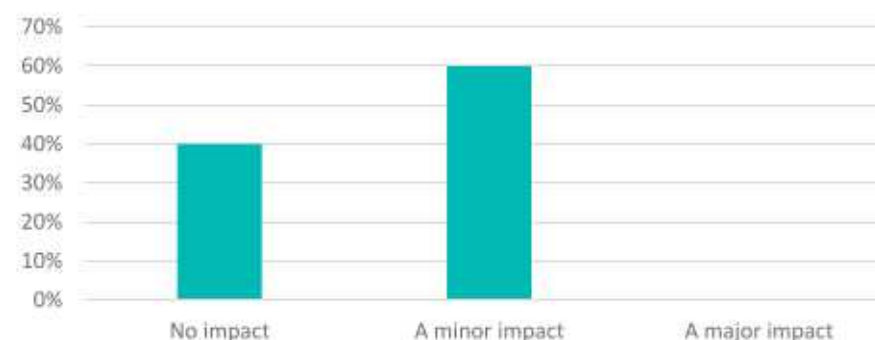
Most businesses did not understand or agree with this intent. Our interviews revealed that this incentive was not understood or valued by water businesses. Many Boards and Managing Directors told us that they consider it to be a ‘perverse incentive’ that a higher quality price submission results in higher customer prices. In our survey, businesses were asked to rate the importance of PREMO’s incentives on a scale from 1 (not important) to 10 (very important), as shown below along with the results for the survey undertaken after the 2018 price review.

**Table 1: Survey results on the importance of different types of incentives**

Incentive	Average rating: 2023	Average rating: 2018
Financial incentives	4.6	4.7
Procedural incentives	6.5	6.6
Reputational incentives	7.6	7.4

We also asked the 2023 price review businesses how much impact the different rates of return had on the content of their price submission and their approach to developing their price submission, as shown below.

**Figure 5: Survey responses on the impact on price submissions of the different rates of return for each PREMO rating**

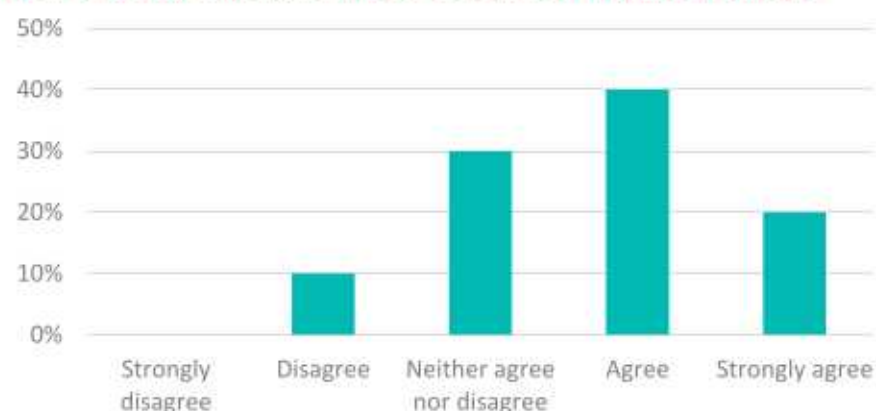


## The performance element of PREMO was effective, but clearer guidance could help

*The 2023 price review was the first time PREMO’s P element was applied and it was considered to have met its objectives*

The application of the P element of PREMO in the 2023 and 2024 price reviews was effective in delivering its objectives. Figure 7 shows survey responses on whether businesses agree that the Performance factor rating for the 2023 price review was effective in achieving PREMO’s objective of holding businesses’ accountable for their proposals and customer outcomes from the previous period.

Figure 6: Survey responses on the effectiveness of PREMO's P element



### *Clearer guidance on assessing P ratings could be useful*

There is some unavoidable discretion and subjectivity in the P ratings, especially in an environment like the 2023 price reviews where almost all businesses overspent against their previous opex estimates due to external events. Businesses generally agreed with the commission's performance ratings, but several businesses considered there would be value in clearer guidance on how P ratings are assessed.

## AUTONOMY

We consider that the 2023 and 2024 price review processes largely delivered on PREMO's objective of providing greater autonomy for water businesses, in consultation with their customers, to decide on the services to be delivered, the prices to be paid and the risks businesses assume on behalf of their customers.

Under PREMO, water businesses have much more autonomy for these matters than under the previous approach to price reviews. As discussed above, the process of water businesses setting and reporting on their performance against customer outcomes was seen as a successful and effective part of the price review

process. Businesses also took a range of different approaches to how they addressed affordability impacts when setting their prices and proposing measures to support customers experiencing financial difficulties.

### **Water businesses could give more attention to the risk element of PREMO and tools for managing uncertainty**

#### *PREMO allows a variety of mechanisms for managing uncertainty*

Several businesses raised concerns that they face an increasing level of uncertainty in the broader environment in which they operate due to issues including climate change, drought risks, increased government obligations, interest rates and inflation, aging assets and uncertain customer demand.

Consistent with the autonomy objective and the Risk element of PREMO, each business has considerable scope to propose its own allocation of risks and uncertainty mechanisms. The commission standardised 3 price adjustment mechanisms that apply to all water businesses, including a price adjustment for uncertain or unforeseen events. Each business can also propose its own form of control (e.g. price cap or revenue cap), tariff structures, price adjustment mechanisms, incentive mechanisms and other mechanisms to manage risk.

#### *Only limited use is made of the available uncertainty mechanisms*

The standard adjustment mechanism for uncertain or unforeseen events is almost never used in practice, despite businesses' concerns about increased uncertainty. This reluctance appears to be due to a combination of concerns about how it would be perceived and a lack of clarity on how the mechanism would work.

Businesses take a variety of approaches to proposing uncertainty mechanisms, but do not appear to use of the available mechanisms as in other regulated industries. This reluctance to use some of the available uncertainty mechanisms means that Victorian water businesses tend to manage uncertainty by simply funding any unforeseen costs themselves within the regulatory period then seeking recovery for

some of those costs at the start of the next period. This approach leads to lower prices for customers in the short term, but may not be an efficient way to manage risk and uncertainty in the long term.

**Businesses are concerned there is too much focus on short term price impacts and insufficient attention on longer term challenges faced by the sector, but it is unclear how much of this concern relates to PREMO**

*The biggest concern raised by Boards in our interviews was an excessive focus on short term prices that may not be sustainable*

A key concern raised by water businesses in our interviews was a perception that there is too much of a short-term focus by government and the commission on prices over the 4-5 year regulatory period and too little focus on longer term asset management, investment needs and financial health of the business.

The causes of this concern included increased investment needed to maintain and replace aging assets, investment that has been deferred over the current and previous period to reduce prices but cannot be deferred any longer, increased expenditure to address climate change risks and improve resilience, increased operating expenditure to meet new or increased regulatory obligations imposed by other parts of government, increased interest rates, and increased debt levels.

We do not consider that these comments indicate weaknesses in the underlying PREMO framework or the need for material changes to the design of PREMO. Instead, many of these comments related to actions by government or how water businesses responded to government's desire to minimise price rises. To the extent that these comments related to the price review process, they generally related to how PREMO is applied in practice by water businesses and the commission rather than the design of PREMO.

The commission approved most water businesses' proposed expenditures with only relatively minor changes. This indicates that these concerns are not based on the commission's decisions on businesses' expenditure levels and major projects.

*Some of these concerns relate to PREMO, but many relate to broader government actions*

It is difficult to clearly delineate the extent to which these concerns relate to actions by the commission as part of the price review process as opposed to actions by government that are largely outside of the commission's control. Many of the concerns that were raised relate to government's desire to minimise prices and government decisions such as the efficiency dividend applied by government.

*Stakeholders raised concerns with commission actions they felt were inconsistent with PREMO's autonomy objective and overly focussed on short term prices*

Water businesses expressed concerns with a small number of decisions by the commission that they considered indicated it was too focussed on short-term price impacts and that they considered undermined the autonomy and engagement objectives of PREMO. Businesses recognised that the commission had the power to take an active role in providing direction to businesses on these issues, but felt it should use the guidance paper at the start of the process rather than taking actions late in the process. The main example provided by businesses was the change the commission made to how it sets inflation shortly before the 2023 final decisions.

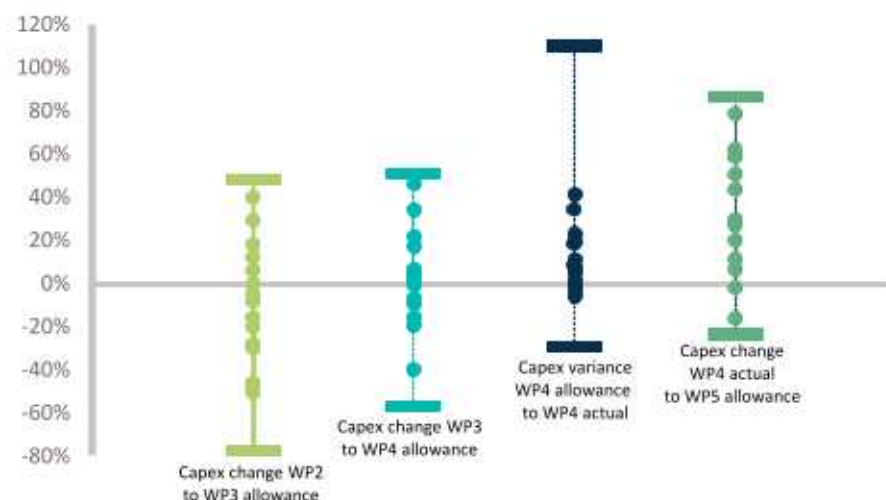
*Water businesses could take actions to help manage some of these longer-term issues and some considered PREMO affords them adequate opportunity to do so*

The integration of long-term asset planning and forecasts of investment needs and prices into water businesses' price submissions and customer engagement could assist in managing some of the challenges discussed above. Some businesses currently do this, and the commission's capex decisions illustrated in Figure 6



show justified proposals are being approved. This brings into question whether other businesses' price submissions take a primarily short-term focus.

Figure 7: Capex outcomes over successive pricing periods



Some water businesses could also make more use of the tools available under PREMO for managing risk and uncertainty as discussed above. Businesses also take varying approaches to the efficient use of debt.

## SIMPLICITY

We consider that PREMO's simplicity objective was only partly met in the 2023 and 2024 price reviews and there are areas where the commission could consider giving more guidance to businesses on what simplicity means and how it can be achieved.

## Businesses are seeking more clarity on PREMO's simplicity objective

*Stakeholders consider that PREMO's simplicity objective has been only partially met*

Several parts of the design of PREMO promote the simplicity objective compared with the pre-PREMO price review framework. Examples include the simplified approach to setting the WACC, the commission's tailored review process including fast-tracking, and businesses being primarily responsible for customer engagement rather than the commission.

In our surveys, we asked water businesses and people who made a submission to rate how effectively various aspects of the 2023 price review process met PREMO's objectives. The question with the lowest rating in both surveys was 'How effective do you consider the price review process was in enabling water businesses to keep their price submissions clear and succinct and focussed on material issues for customers?'

*Some businesses consider the commission's assessment could be more targeted with a greater emphasis on overall customer outcomes*

PREMO's simplicity objective has several elements. When introducing PREMO the commission described the overall objective as 'avoid focussing on matters that make little difference to the outcomes experienced by customers... by choosing simplicity whenever possible'.

There are divergent views about what the simplicity objective means and how it impacts how PREMO should be applied in practice. Many water businesses considered that there is scope for the commission to target its review of building blocks inputs on material issues and adopt a more holistic and integrated approach that has greater regard to overall customer outcomes.

*The length of price submissions has increased significantly and stakeholders are unclear on whether the simplicity objective means they should aim for short price submissions*

The length of price submissions increased significantly in the 2023 and 2024 price reviews, with a correlation between longer submission and higher PREMO ratings.

**Table 2: Length of price submissions (average page length)**

	2013	2018	2023	2024
Length of price submissions	94	108	148	200
Length: standard ratings	N/A	99	117	200
Length: advanced or leading ratings	N/A	118	203	N/A

To some stakeholders, this increase in price submission length appears inconsistent with PREMO’s simplicity objectives of minimising compliance costs and clear and succinct price submissions. Businesses had different views on whether the commission wanted short submissions. Numerous businesses stated that it is challenging to meet the commission’s guidance requirements through a short submission. The commission could clarify its simplicity objective and guidance on its expectations for price submissions, focussing on relevance not length.

***Some businesses are concerned about increasing costs of the price review process***

We heard concerns from many stakeholders that the cost of engagement is increasing and that further increases in the scale of engagement are unlikely to be justified. There has been a material step-up in water businesses’ customer engagement since PREMO was introduced. However, the scale and cost of engagement appears to have reached a point where many businesses are looking for reassurance from the commission that it will not expect even more extensive engagement at the next price review in 2028.

## What business-specific factors impacted the extent to which PREMO’s objectives were met?

This section sets out our findings on factors that may have materially affected the extent to which PREMO’s objectives were met for different water businesses.

### How businesses navigate government’s desires for lower prices

As discussed above, there is an understandable desire from government to minimise prices over the 5 year regulatory period, especially during a period of high inflation and cost of living pressures as was the case for the 2023 and 2024 price review processes. How water businesses respond to this desire was a key factor that affected businesses’ views on the effectiveness of PREMO and how effectively the price review process met PREMO’s objectives.

Our interviews with water business Board members and senior executives identified two different approaches taken by businesses to managing government’s concerns about price rises and the impact on the cost of living.

One approach is to put significant weight on government’s views when preparing the price submission and ensure the business proposes prices that rise by less than inflation even if the business thinks this approach may create long term issues. There is little the commission can do in this case.

The alternative approach is to be mindful of government’s objectives and the impact of price rises on customers and seek to minimise prices and reduce costs where possible, but still propose the price levels the business considers are required. The businesses that took this approach also undertook extensive engagement with customers to understand customers’ views on whether they were

willing to pay for the required investment and how to prioritise investment needs, and some engaged on longer-term price trajectories and investment profiles. They also engaged with government to explain the reasons for the price rises and how they had sought to mitigate them. This approach is likely to result in better long term outcomes for Victorian water consumers.

### **Integration of the price submission into broader corporate planning, data and reporting systems**

The extent to which the price submission process is integrated into water businesses' broader corporate planning is a key factor that influences how effectively PREMO's objectives were met across different businesses.

The businesses with more favourable views of whether the price review process met PREMO's objectives were businesses that viewed the price submission as part of the organisation's broader corporate planning processes. In contrast, several businesses saw the price review process as a periodic exercise they need to undertake for the commission every 5 years that involves too much cost and time.

Integration of operational and financial data reporting systems was seen as a key enabler by businesses that viewed the price review as part of their broader corporate planning and reporting processes. PREMO's objectives are more likely to be met where businesses have invested in data management and reporting systems so they can easily develop their price submission and track performance against their expenditure allowances and customer outcome commitments.

### **Board and staff turnover**

Several people we interviewed considered that turnover in senior staff and Board members has a material effect on the effectiveness of the price review process and its ability to meet PREMO's objectives for some water businesses. Several water businesses considered that their low turnover at senior levels had made the price review process easier and more effective for them. We also interviewed Board

members that had served on the boards of several Victorian water businesses and it was clear this experience had proven valuable.

### **Proactive engagement with the commission**

All water businesses said they had good relationships with the commission's staff. However, there were a variety of approaches to how businesses engaged with commission staff and identified and escalated issues when needed.

Several businesses considered effective commission engagement and the ability to proactively raise and escalate material issues was critical for an effective price review process. However, several businesses said that the extent to which businesses did so partly depended on whether they had existing relationships with commission staff that meant they felt able to raise such issues. Some businesses also said there was not a clearly communicated process for escalating issues.

### **Attitudes towards debt**

Increasing debt levels was a concern raised by several water businesses. We observed that water businesses' attitudes towards the use of debt varies markedly.

Several water business directors we interviewed had a good understanding of the benefits and risks associated with debt and efficient gearing levels. However, some directors appeared to have a limited understanding of why the commission considers 60% RAB debt to be an efficient gearing ratio and how debt and equity costs are accounted for when the commission sets prices.

## Feedback on the commission’s price review process and approach

This section sets out feedback from stakeholders and our observations on what worked well and what could be improved in the process aspects of the 2023 and 2024 price reviews. It covers the commission’s processes and timing, guidance materials, engagement with water businesses and other stakeholders, decision documents and other communications materials. It is based on the outcomes of our interviews, surveys and analysis of the commission’s decisions.

### What worked well in the price review process

#### *There is strong support for PREMO and the commission’s overall approach*

Water businesses generally considered that the commission managed the process issues of the price review very well. For example, one Managing Director stated:

*Being a regulator is difficult. From a process perspective, some regulators don’t stick to their own processes and statutory timeframes. The ESC gave guidelines and timelines, and to their credit they largely ran the process as described.*

Another Managing Director said:

*What worked well was genuine and open engagement between the ESC and us as it progressed the review of our submission... There were no surprises between the draft and the final decisions... The draft decision was clear on what we had to do.*

Water businesses and stakeholders who made submissions were all very complimentary of the commission staff, appreciating their knowledge and accessibility.

#### *The commission’s engagement methods were seen as useful*

Water businesses and people who made submissions found each of the commission’s engagement methods to be useful, including:

- The Boards of many water businesses said their meetings with the commissioners or senior staff prior to lodging submissions were very useful.
- People who made submission found written submissions, meetings with commission staff and the commission’s public forums useful, and considered that their submissions or comments were heard and appropriately responded to.

#### *The commission’s guidance was generally seen as clear and helpful, but could be improved in several areas*

The commission’s guidance paper was generally seen by water businesses as clear and helpful as shown in Figures 8 and 9.

Figure 8: Survey responses on the usefulness of the commission’s guidance

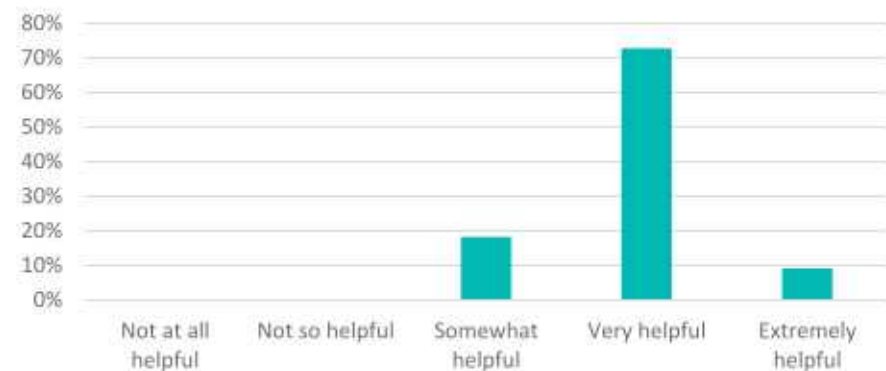
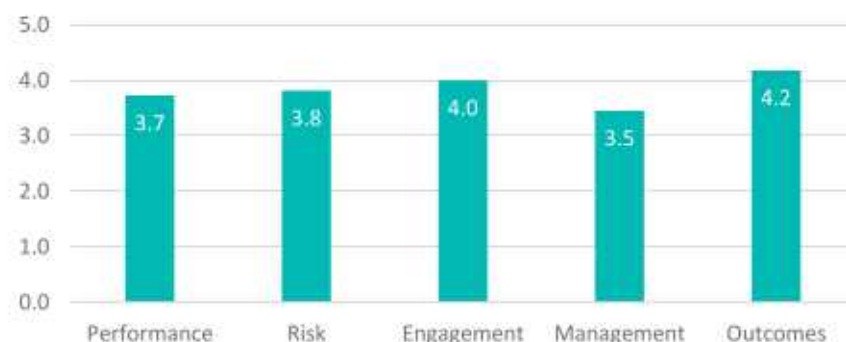


Figure 9: Survey responses on the effectiveness of the guidance on each PREMO element



Businesses recognised that the written guidance cannot address every issue. Commission staff were seen to be very helpful in providing additional clarification and guidance when it was sought. There were some specific suggested areas for improvement in the guidance, including the opex step-change assessment criteria, treatment of unregulated services, fast-tracking criteria, NCC guidance and guidance on the expected length of submissions. As discussed below, several water businesses also recommended that the guidance be published earlier.

### What could be improved for future price reviews

*New Customer Contributions (NCCs) is a valuable case study on how engagement processes could be improved for material issues that are common to several businesses*

In our interviews, NCCs were raised as one of the most challenging aspects of the 2023 and 2024 price review processes. The relevant businesses and commission staff have very different views of what happened and why, which suggests there was a break-down in effective communication and engagement.

These experiences indicate there may be value in a more structured process for identifying and addressing material issues and proposed changes in approach early in the price review process. These issues should ideally be raised by businesses at the time the commission's guidance is developed. There should be a clear onus on businesses to identify any proposed material changes in approach or other material issues very early in the process and engage with the commission on these issues. Businesses should also identify early if they are unclear on what information is required by the commission to justify their proposed approaches to material issues. There should also be an expectation that where this happens, the commission will provide clear feedback on any concerns it has about what is proposed and what evidence it requires for such a proposal to be capable of acceptance.

If not resolved at the guidance stage, there would also appear to be benefit in a more explicit process for separating out material common issues so they can be engaged on and assessed in a clear and consistent way across businesses early in the process rather than just as part of each business' draft and final decisions.

### *Changes to the price review process timing could deliver benefits*

Stakeholders suggested key changes to the timing of the price review process:

- **Guidance paper:** Several businesses recommended the commission publish its guidance paper earlier, as it is currently published after they have commenced preparation of their price submissions and customer engagement.
- **Price submissions:** The commission should consider bringing forward the timing of price submissions to allow more scope for fast-tracking. The current gap between price submissions and fast-tracked draft decisions is very short and appears to limit the ability to use fast-tracking effectively without an overly compromised commission review. An earlier price submission date could also allow the commission to introduce a more structured process for dealing with price submissions that contain errors or do not meet the commission's guidance, e.g. the commission undertaking an initial review of submissions and requiring businesses to resubmit the price submission if it is not compliant.

- **Final decisions:** The 2023 and 2024 final decisions were published on 23 and 18 June respectively, leaving only 5 to 8 business days to complete all the actions businesses need to undertake to determine and notify prices for the new pricing year commencing on 1 July. Several water businesses found this timing very challenging and recommended earlier publication of final decisions.

*Some improvements could be made to aspects of the commission's decision documents and communication materials*

Stakeholders generally considered the commission's draft and final decisions and other communications materials to be clear and accessible, subject to some minor suggested areas for improvement. For example, there could be value in the commission publishing communication materials on key common issues alongside the draft and final decisions, and making it easier for stakeholders to make submissions that relate to multiple businesses.

*The commission may need to consider broader process changes in future to address the challenges of making decisions for 16 water businesses at the same time*

The 2023 price review decisions had a 5 year regulatory period, while the 2024 price review decisions had a 4 year regulatory period. This means all 16 of these water businesses will have their next price review decisions in 2028.

Several of the suggestions contained in this report could assist the commission's resourcing of the next price review. In the longer term, the commission may wish to consider whether doing price reviews for 16 water businesses at the same time is the best approach. Some stakeholders suggested in our interviews splitting the price reviews into 2 or more groups that were on different regulatory cycles, for example splitting the price reviews for metro and regional businesses to manage workload while still allowing benchmarking between similar businesses.