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15 September 2020

Peter Achterstraat AM
NSW Productivity Commissioner
NSW Treasury
52 Martin Place
SYDNEY NSW 2000

Dear Peter,

Submission to Green Paper *Continuing the productivity conversation*

Thank you for the opportunity to respond to your Green Paper, which is released in uncertain and challenging times.

We understand that governments in Australia are under pressure to restrict the spread of COVID-19 while also wanting to achieve economic prosperity. Further, initiatives to adapt to and mitigate climate change remain crucial and there is renewed focus on this as the 2020 bush fire season begins following last summer's devastating fires.

We recognise the need to pursue productivity gains for the well-being of the community and support the direction of the Green Paper. In particular, we support much of its commentary and many of its recommendations in the areas of water, energy, transport and local government, which are sectors where we have ongoing roles as an economic regulator and advisor to the NSW Government.

Our view is that the principles behind many of the recommendations in the Green Paper are sound, but their acceptability and success will largely depend on details around their implementation. This includes, for example, strategies for consultation and communication with key stakeholders and the broader community, the timing of implementation, and potential transitional or other measures to mitigate the impacts on any adversely affected parties. We encourage you to consider implementation issues and strategies for the more significant or contentious recommendations.

There are some specific references to or potential roles for IPART and we support:

- ▼ IPART undertaking a review to update the NSW Government's competitive neutrality policy and processes.
 - ▼ IPART reviewing the NSW Rail Access undertaking, including its interaction with the national rail access regime.
- [REDACTED]

- ▼ Sydney Water continuing to work with IPART to estimate the long-run marginal costs for Sydney Water's wastewater catchment areas and consider implications for pricing.
- ▼ IPART reviewing the Opal fare structure to reflect the costs of travel and encourage a more even distribution of demand throughout the day. However, the timing of this review may need to be considered given the disruptive impact of COVID-19 upon work and travel patterns.
- ▼ Establishing a single NSW Energy Regulator. We would be well-placed to undertake this role given we currently regulate distribution and transmission network licences, including the safety and reliability obligations placed on electricity network operators in NSW.

As the Scheme Administrator and Scheme Regulator of the current Energy Savings Scheme, IPART is well placed to provide insights into the proposed Energy Security Target and Safeguard framework. Any NSW schemes need to work with, not against, policies and actions being undertaken at the national level. We encourage government to work closely with national bodies to ensure consistency with the national approach. This is particularly important when considering the management of peak demand and the setting of an energy security target. The design of the NSW Energy Security Target should focus on market failures not already being adequately managed through other existing mechanisms. If this does not occur, NSW energy consumers could be required to fund duplicative mechanisms unnecessarily.

It is important to demonstrate to customers the benefits they will receive and assess customers' willingness to pay for these additional benefits if this target imposes greater reliability requirements upon industry participants. This is because the Energy Security Target and Safeguard will be funded through electricity prices.

The Green Paper suggests that the current grant funding model for Local Water Utilities (LWUs) may discourage them from operating efficiently and that there is evidence of the LWUs under-pricing. We would be well placed to provide assistance to the Government in designing a regulatory framework and approach that provides enhanced incentives for the LWUs to invest, operate and price efficiently, while recognising the range of challenges faced by LWUs.

We look forward to working closely with the Productivity Commission in these areas of reform and would welcome the opportunity to meet with you. Should you require further information, IPART's contact officer for this submission is [REDACTED]

Yours sincerely

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