

30 January 2018

Dr Peter Boxall  
Chair  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop, NSW 1240



Dear Dr Boxall,

### **IPART's Draft Cost Allocation Guide**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon disadvantaged and marginalised people. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART) Draft Cost Allocation Guide.

### **The importance of an effective Cost Allocation Guide**

Developing and maintaining a Cost Allocation Guide will not only assist in providing transparent access to declared infrastructure services, but also help to deliver greater transparency about the costs of providing regulated services in general. This is a particularly important element in helping to drive more efficient delivery of regulated services and minimising cross-subsidisation of costs.

We support IPART's aim to ensure that the Guide leads to transparency and consistency of cost allocation. This will lead to better long-term outcomes for consumers, which must remain central to the delivery of essential services.

### **Causality principle in allocating costs**

PIAC supports IPART's guiding principle in allocating costs that they 'should generally be determined and allocated to services on the basis of *causality*.' Where costs are indirect, PIAC also supports using allocators which are 'transparent, simple and measurable, and where there is a high degree of correlation between the cost item and the allocator.'

When allocating cost where a causal relationship cannot be established PIAC supports that 'the basis for allocation should still be transparent and defensible.' PIAC interprets this as primarily covering instances where a causal link intuitively exists but quantifying the precise nature of the relationship is impractical. PIAC recommends that businesses are also required to explicitly state this relationship on top of the requirements listed in Section 3.3.3 of the draft Guide. This will provide additional rigour to make sure that costs are being appropriately allocated and prevent cross-subsidisation.

PIAC also supports that the 'basis for the cost allocation should be reviewed periodically' to ensure that it remains fit for purpose in response to changes in the industry and network operation.

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**Principles for deviating from the Guide**

PIAC considers that the Guide should be comprehensive enough for service providers to follow it in preparing their cost allocation manuals. However, given that the Guide is not binding and circumstances may change, service providers have the option to deviate from the Guide.

If this should occur, IPART should only accept deviation if the business can clearly demonstrate that doing so would result in a materially preferable outcome for consumers. Further, PIAC recommends that the Guide include explicit principles to this effect to provide additional certainty to businesses and stakeholders.

**Continued engagement**

PIAC would welcome the opportunity to meet with IPART and other stakeholders to discuss these issues in more depth.

Yours sincerely,

**Craig Memery**

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