Pricing Proposal

To the NSW Independent Pricing and Regulatory Tribunal

Regulated charges for WaterNSW Bulk Water Services from 1 July 2025

30 September 2024

WaterNSW

We acknowledge the Traditional Custodians of the land and water on which we work and recognise the continuing cultural and spiritual connections that Aboriginal and Torres Strait Islander people have to Country. We pay our respects to Elders past and present.

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Pictured on cover: Keepit Dam

CEO foreword

I am pleased to submit WaterNSW's proposal to the Independent Pricing and Regulatory Tribunal of NSW (IPART) for regulated prices for NSW Rural Valleys and Greater Sydney bulk water services from 1 July 2025 to 30 June 2030.

WaterNSW's Board, executives and senior leaders are fully committed to the planning and delivery of this proposal and the ongoing accountability to monitor and deliver on our commitments.

Water is a precious resource for NSW. It fuels the health of our environment, citizens, agriculture and industry. This is why our purpose as a company is water, delivered when and where it matters.

We must ensure the prosperity and continued growth of communities across NSW by reliably providing this essential service.

This is our vision: *to support the resilience of NSW communities through our leadership in delivering water services, for generations to come.*

The pricing proposal process is an example of working collaboratively with our customers, communities and broader stakeholders to plan for the future. It describes our best offering for how we place our customers at the forefront when considering future costs and decision-making.

This is our first pricing proposal prepared under IPART's 3Cs framework that places greater emphasis on embedding customer preferences into

the proposal and demonstrating the prudency and efficiency of our activities and costs.

This is also WaterNSW's first pricing proposal that reflects WaterNSW as a single organisation providing bulk water and water management services to both rural and urban customers.

The costs for conferred functions provided by WaterNSW on behalf of the Water Administration Ministerial Corporation are the subject of a separate joint submission with the NSW Department of Climate Change, Energy, the Environment and Water (DCCEEW) and the Natural Resources Access Regulator. This pricing proposal focuses on our Rural Valley and Greater Sydney bulk water services.

We have embraced the new 3Cs framework and the opportunity it presents to align with our Corporate Strategy and its key direction of putting customers at the heart of our business.

To this end, we have significantly expanded our engagement activities, entered into a new era of transparency with regard to sharing our financial information, and we have sought deeper conversations across the breadth of the business with customers, stakeholders and community to better understand their needs and priorities for this determination.

We place our customers at the forefront of our decision making, while looking to deliver customer expectations at the most efficient cost.

Our previous pricing proposal was prepared under very different economic and climatic circumstances, with NSW experiencing extensive drought and bushfires ahead of the impacts of Covid that affected many aspects of how we operated. Bushfires resulted in the need to manage water quality issues and also impacted our ability to access our infrastructure.

In addition, over the past regulatory period, NSW experienced some of the worst flooding on record that devastated customers and communities. Flooding significantly impacted our ability to access our assets and led to a re-prioritisation of our emergency response over a number of successive years, all while maintaining a focus on the safety of our communities and our employees.

With the impacts of climate change and variability ever present, we continue to work closely with Sydney Water and DCCEEW to assess drought supply options to secure water supply for our customers.

Providing a safe and reliable water supply in the current environment will require additional investment that comes at a significant cost. To enable WaterNSW to support our customers in this environment it is important that our financial capacity to manage these costs is considered in determining prices.

Several factors outside of our direct control – including, but not limited to, higher inflation and interest rates and increases in land tax, insurance and input costs across our supply chains and the construction sector – are placing upward pressure on costs.

Combined with almost $18 million in base year savings, we are proposing a cumulative efficiency target of 1% per annum, leading to combined savings of $133 million over the upcoming five-year determination period, or around 10% of our total operating costs.

We have also been more effective in prioritising our capital expenditure on an ageing infrastructure portfolio, so that our proposed investments are at the lowest sustainable cost to help offset the impact of cost increases on customer prices.

Our efforts to curtail costs, however, have not been sufficient to avoid significant price increases over the 2025 Determination period if fully passed on to customers.

We are required to propose cost reflective prices to meet our regulatory and legislative obligations, and to reflect customer preferences gained through our engagement processes, and these are contained in our Cost Reflective Base Case in this proposal.

We have left no stone unturned in seeking ways to minimise the pricing impact of cost increases, including incorporating customer preferences into our proposals (such as consistent feedback that customers should not be paying for environmental works), deferring major investments where feasible, making changes to the lifespan of assets, and approaching the NSW Government on alternative funding models, including changes to rural cost shares.

We appreciate that IPART, after applying its building block framework, is required to provide sufficient funding so that we remain financially sustainable while also considering customer affordability. For the Rural Valleys, we have provided three alternative scenarios in addition to our complying Cost Reflective Base Case to assist IPART when it balances these potentially competing objectives.

Notable challenges we face over the coming five years include navigating a continuing uncertain macroeconomic and geopolitical future, addressing the impacts of climate change, and managing assets within acceptable risk tolerances while building greater resilience.

Addressing customer affordability, while maintaining WaterNSW's financial capacity over the medium to long-term to support the communities and the customers we serve, are key issues for this review.

As WaterNSW continues its transformation into a more customer-engaged and digitally enhanced business through our transformation program, we remain committed to managing costs in a manner that is financially sustainable, transparent, collaborative and relevant to deliver the outcomes our customers have asked for.

Andrew George
Chief Executive Officer


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Executive summary

Our proposal at a glance

Our engagement and consultation

- This engagement and consultation represents a significant uplift in the way we engage with our customers, community and stakeholders. In meeting the 3Cs framework WaterNSW embarked on the largest and broadest engagement in its history. The 20-month engagement was multifaceted and led by the CEO and Executive who travelled to meet with CAG members for 50 meetings across the state, presented at each of the 20 Water Working Group meetings and held detailed conversations with water user groups, more than 80 meetings in total, in the delivery of this extensive consultation effort.
- We committed to **improving the way we listen and respond to customers, stakeholders and the wider community**. We travelled to where our customers live and work, attending field days, festivals and speaking at meetings around the state. We went on a First Nations Listening Tour, reaching 10 communities, to better understand what was important to them.
- We focused our efforts to better understand the services that customers and community value, as well as their varied and sometimes changing needs. This means **placing customers and stakeholders at the heart of our decision-making**.
- We have **embedded customer priorities** and insights into our plans to deliver better customer outcomes.
- In Greater Sydney, we **engaged closely with Sydney Water** over the past two years to identify, plan and address their needs and level of service, together.
- We also engaged with councils and small customers during our engagement process.

Customer outcomes for 2025–30

- Customers told us what outcomes we should target for the 2025-30 determination period and endorsed our associated performance measures and targets. The outcomes we commit to are:
  1. Maintaining downward pressure on costs to support customer affordability.
  2. Providing secure, reliable water delivery.
  3. Being open and transparent about customer charges and WaterNSW expenditure.
  4. Driving sustainable water and land management.
  5. Providing easy customer and community access to data and information.
  6. Providing good customer experiences, enabling our customers to run their businesses.
- These outcomes apply across **Rural Valleys and Greater Sydney**, noting performance measures may differ.

How we will deliver on these outcomes

- WaterNSW continues to invest in renewing or replacing ageing infrastructure and our ongoing transformation into a more customer-engaged and digitally enhanced business through our business transformation program.
- **$2.1 billion will be invested in our combined 2025–30 capital program ($1.5 billion in Greater Sydney, $0.5 billion in Rural Valleys and $114.9 million in WAMC)**. Capital investments are based on a bottom-up risk assessment to ensure we meet service needs and minimise life cycle costs.
- **$1.2 billion will be invested in our combined 2025-30 operating program ($0.7 billion in Greater Sydney, $0.4 billion in Rural Valleys and $147 million in WAMC)**. We will maintain our assets, improve our land management and invest in our people. We have identified expenditures needed to meet regulatory and customer requirements and increases in external costs outside of our control.
- We commit to a **cumulative efficiency target of 1% of opex per annum** that, when combined with almost $18 million in savings in our base year, achieves **$133 million in savings** over five years by investing in digital transformation and innovation.

What this means for prices and bills

- Our proposal is based on the efficient costs of providing regulated services that lead to revenue requirement increases **of 44%** on average (excl. inflation).
- We have **reduced costs within our control** and have identified a **cost reflective base case** as well as several **alternative scenarios** for rural customers to minimise pricing impacts.
- **IPART to consider affordability** when it sets prices for rural customers for the period 2025-2030.
- An average Sydney Water residential customer's bill will increase by less than **$1 a week** for the costs of WaterNSW's bulk water services.
- We propose a **revenue cap** for most valleys with a side constraint to manage volume risk and limit pricing volatility while also allowing us to offer flexible pricing arrangements.
- We propose to **keep fixed charges at the current proportion** for most valleys.
- We have a 'no questions asked' **hardship program in place** to assist customers in need.


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How to navigate this pricing proposal

This pricing proposal has been prepared to reflect our corporate direction and dedication to excellence in meeting our obligations as a regulated water business, including the requirements as set out in the IPART Handbook guidance paper.

We have prepared our pricing proposal in two interrelated parts.

The first part, this main submission document, represents a stand-alone description of our proposals and commitments across the regulatory period. It sets out the context within which we prepared this submission and describes our engagement approach, customer outcomes and commitments, demand forecasts, how our Board and Leadership team have approached the management of risk and investment, and our prices. It also contains our self-assessment under IPART's 3Cs (customer, costs, credibility) framework.

The main submission should be read in conjunction with the Submission Supplement – the second part of our pricing proposal. The Submission Supplement contains a more detailed account of elements of our regulatory proposal through attachments and appendices (listed below) and has been written to directly address the requirements of the Handbook.

All values presented in this main pricing proposal document and Supplement are expressed in 2024-25 'real' dollars (that is, they exclude inflation) unless otherwise stated. The figures exclude GST.

Our pricing proposal comprises this main submission document, Attachments 1-30 and Appendices 1-7 as submitted by WaterNSW to IPART on 30 September 2024.

List of attachments

Reference no.	Supporting document
Attachment 1	Quality assurance and Board attestation
Attachment 2	Self-assessment against IPART's grading rubric
Attachment 3	Customer and community engagement – how we have responded to what customers value
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Attachment 24	Long-Term Capital and Operating Plan for Greater Sydney
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Attachment 27	Cost pass-throughs and true-ups
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Attachment 29	MDBA BRC letter to WaterNSW July 2024
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Reference no.	Supporting document
Appendix 1	Quality assurance
Appendix 2	Pricing Proposal 2025-2030 Final Customer and Community Engagement Summary
Appendix 3	Impact of macroeconomic factors
Appendix 4	NSW Water Shared Technology Ecosystem Roadmap
Appendix 5	Annual Information Return (AIR) / Special Information Return (SIR) MDBA/BRC Cost Model from Department of Climate Chage, Energy, the Environment and Water (DCCEEW)
Appendix 6	5 populated IPART Building Block Models for: - Greater Sydney and Rural Valley Cost Reflective Base Case (CRBC) - Rural Valley Alternative Scenario 1 - Rural Valley Alternative Scenario 2 - Rural Valley Alternative Scenario 3 - Greater Sydney FY25 Deferral Year
Appendix 7	WaterNSW Cost Allocation Manual

Introduction

Water is a precious resource for NSW. It fuels the health of our environment, citizens, agriculture and industry. This is why our purpose as a company is water, delivered when and where it matters. We must ensure the prosperity and continued growth of communities across NSW by providing reliable access to this essential service.

Our vision: *Support the resilience of NSW communities through our leadership in delivering water services.*

While we continue to implement an ambitious efficiency program, we have forecast increases in our efficient level of expenditure for the 2025 Determination period. This reflects better, more robust estimates of the efficient costs of undertaking the investment programs required to fulfil our legislative responsibilities. It also reflects cost increases in the external environment due to several factors outside our direct control – including, but not limited to, higher inflation and interest rates, insurance, land tax, software licensing and data. Cost increases have also been experienced across our supply chains and the construction sector – all placing upward pressure on our costs.

As WaterNSW continues its transformation into a more customer-engaged and digitally enhanced business through our business transformation program, we remain committed to managing costs in a manner that is transparent, collaborative and relevant to deliver the outcomes our customers have asked for.

Our pricing proposal

WaterNSW is pleased to submit this pricing proposal to the Independent Pricing and Regulatory Tribunal of NSW (IPART) for regulated prices for bulk water services for NSW Rural Valleys, and Greater Sydney, from 1 July 2025 to 30 June 2030. It includes how our proposed costs have been determined, the outcomes they will deliver for customers and community and how we will be held accountable for achieving these outcomes. Our proposal outlines:

- our commitment to investing in and delivering key customer outcomes, which reflect legislative obligations and feedback from our customers and other key stakeholders
- how we will deliver these outcomes in an efficient manner
- how we propose to recover these costs equitably and efficiently, in line with our set up as a lean business operating model
- our capability and commitment to deliver for our customers and stakeholders, which underpins the credibility of our proposal.

In undertaking our legislative responsibilities, we continually consult with our customers and other stakeholders in developing, reviewing and implementing our investment programs. We have consulted extensively with our customers and other stakeholders to inform this pricing proposal, with a focus on outcomes they value. Further, we are guided by robust, long-term strategic planning, in the form of the Long-Term Capital and Operating Plan in conjunction with Sydney Water for Greater Sydney and our longer-term planning for the Rural Valleys, consistent with regional water strategies.

This pricing proposal is the first that combines our proposed revenues and prices for Rural Valley bulk water services and Greater Sydney bulk water services that were previously the subject of two separate pricing proposals and determinations. It is consistent with the key principles of IPART's new '3Cs' regulatory framework, tailored to reflect WaterNSW's role and circumstances as a bulk water provider in NSW.

Charges for activities provided by WaterNSW, undertaken on behalf of WAMC functions conferred on WaterNSW, are the subject of a separate joint pricing proposal prepared by DCCEEW, NRAR and WaterNSW.

We manage our costs via a whole of business approach to deliver value to customers and have included WAMC services and costs in this bulk water pricing proposal only so far as they provide visibility of how we manage our overall costs and activities to deliver our services.

We present our proposed operating and capital expenditure forecasts and our revenue requirements starting with a combined view of our Greater Sydney, Rural Valleys and WAMC services (WaterNSW portion only). The proposed complying Cost Reflective Base Case revenues and prices relate only to our bulk water services for Greater Sydney and Rural Valleys.

More information on proposed WAMC charges from 1 July 2025, including WaterNSW-specific services and costs, can be found in the joint WAMC pricing proposal.

Economic sustainability for WaterNSW, our customers and shareholders

Providing a safe and reliable water supply in an environment characterised by uncertain macroeconomic and geopolitical factors will require additional investment that consequently comes at a significant cost.

For rural customers, if the higher costs in our complying Cost Reflective Base Case are fully passed through to customers, it would lead to price increases beyond what they have told us they can afford. Our proposed cost reflective prices are therefore provided as a starting point for IPART to assess the prudency and efficiency of our proposed expenditures. IPART can then assess whether the proposed costs lead to prices that are affordable for our customers.

To assist IPART, WaterNSW has provided three scenarios that we have discussed with our Rural Valley customers that individually, or in combination, have the potential to achieve a balanced outcome for our customers, WaterNSW, and our shareholders, should IPART decide to address affordability in its final Rural Valleys determinations. These alternative scenarios all start with a price capping arrangement that results in a revenue gap compared with our cost reflective revenues and prices, and would need to be separately funded.

A collaborative approach

The pricing proposal process is an example of working collaboratively with our customers, communities and broader stakeholders to plan for the future. It describes our best offering and demonstrates how we place our customers at the forefront when considering future costs and decision-making.

Our submission is the result of our efforts to deliver greater value to our customers and communities. It demonstrates our commitment to diligently, carefully and transparently serve the needs of the people who benefit from our services. This is WaterNSW's first pricing proposal made under IPART's 3Cs framework (customers, costs and credibility), which aims to achieve greater value for customers and communities from the participants in the NSW water sector.

We have significantly expanded our engagement activities, entered into a new era of transparency with regard to sharing our financial information, and conducted deeper conversations across the breadth of the business to better understand our customers' needs and priorities – and what they value most – for the determination period.

WaterNSW has self-assessed this proposal, using IPART's methodology, as being '**standard**' grading for the 2025 Determination. We consider that this grading reasonably reflects where we are as a business, the challenges and complexity of our rural customer base spanning 13 valleys, each with unique circumstances, and our incorporation of the relevant requirements of IPART's 3Cs framework as set out in IPART's Handbook of July 2023.

We engaged genuinely, deeply and broadly

WaterNSW is putting customers at the heart of our decision-making. We engaged broadly and collaboratively in the development of this proposal, aiming to genuinely deepen our understanding of what our unique and diverse customer base values most, to ensure that our services reflect our communities' priorities and preferences.

We began to engage on the pricing proposal in December 2022 and started with a focus on ensuring that our engagement strategy and design was informed by our customers' preferences. We analysed multi-year previous engagements to better understand customer expectations and community insights; we asked our customers how we could best consult with them and what 'good' looked like. These insights and feedback helped shape the design of our Engagement Plan for this pricing proposal and our starting point for consultations. It had three phases – check in, listening and discovery; customers and community deliberation on priority outcomes; and confirming our pricing proposal.

In designing these consultations, we also had regard to international best practice under the International Association for Public Participation (IAP2) spectrum, whose principles and values are grounded in the foundation that "those to be impacted by a decision should have a voice in making that decision". In addition, we adhered to IPART's principles of good engagement:

- being meaningful and sincere
- diverse and inclusive engagement which is accessible and tailored to the customer base
- balance of customer and environmental needs
- relevant, timely and appropriate
- transparency and accountability
- representative, reliable, and valid design.

We worked hard to reach a wide range of stakeholders – different types of customers, community, interest groups, First Nations, councils, vulnerable people and industry, so that we had a broad range of voices. We established four Water Working Groups, each of which met five times over several hours across nine months, mixing customers with community and stakeholders, to collaborate with us on our submission. We collaborated with the community to develop guiding values and refine our stakeholder outcomes.

We engaged our Customer Advisory Groups (CAGs) in detailed conversations around pricing and operational matters, to ensure they had significant input into shaping our pricing proposal and our plans responded to the services they valued most. Our customers and stakeholders have had multiple opportunities over almost two years to provide input and comment on key aspects of our submission – providing insights into their preferences and shaping our response to key service and regulatory matters.

Our comprehensive Final Engagement Report (Appendix 2) outlines this three-phase journey, our three-phase methodology and multifaceted approach, our deliberations, topics and feedback results. This enabled our broad and deep engagement with a diverse customer and stakeholder base.

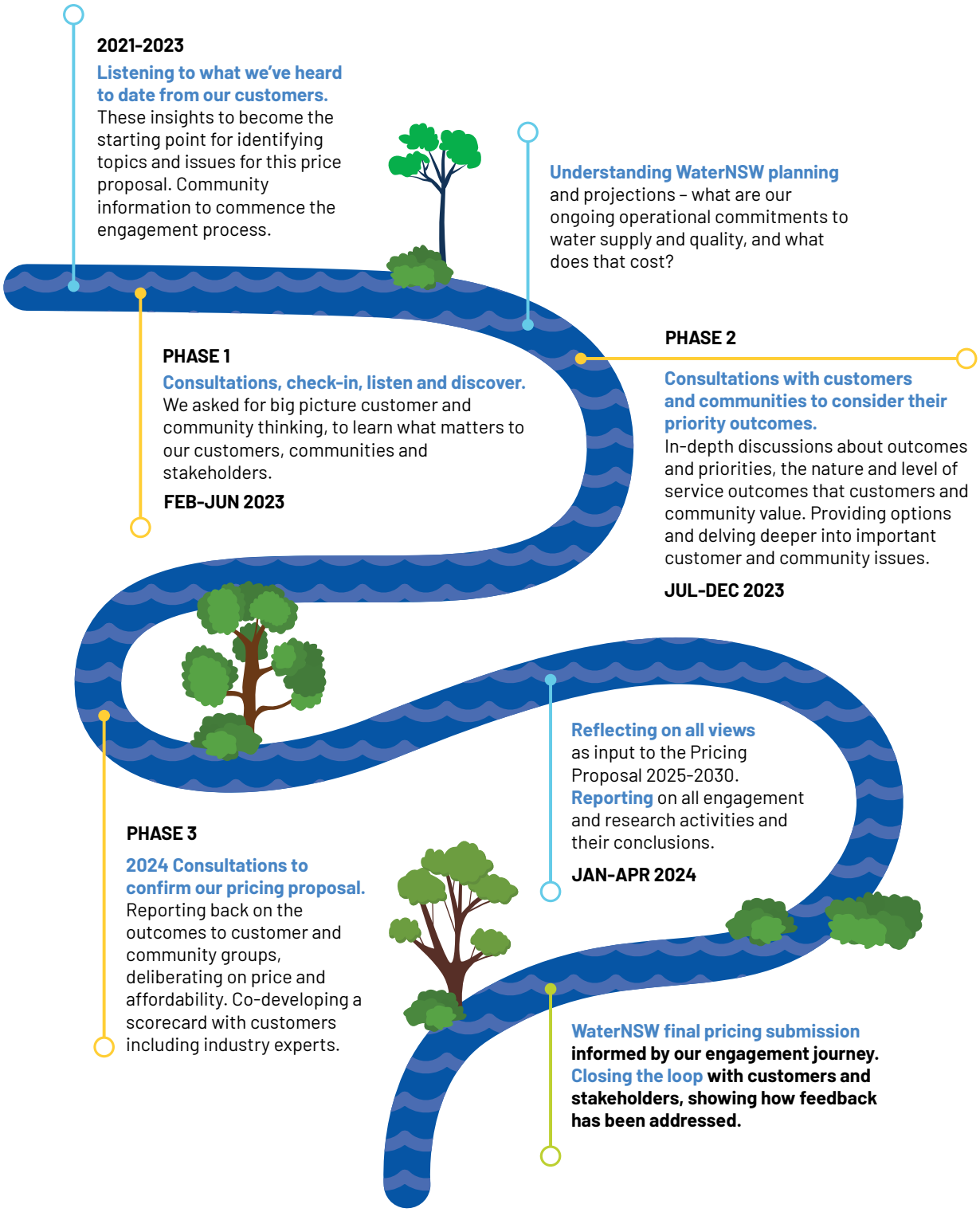
Our customer engagement included the following activities over the past two years:

- 2,500 in person conversations with customers and communities to inform our proposal
- 1,182 hours of discussion, through 21 Water Working Groups
- five rounds of engagement and consultation on pricing with 10 Customer Advisory Groups (50 meetings)
- broad capture of community, farmer and customer views through almost 1,000 survey responses
- targeted engagement with irrigation corporations and water user groups
- discussions with larger customers, including Licensed Environmental Water (LEW) holders
- focused engagement with industry bodies and their members, including NSW Irrigators' Council and NSW Farmers

- a First Nations Listening Tour in 10 regional locations, and follow-up engagement with NSW Lands Council
- significant engagement with Sydney Water as part of regular forums, including on the Long-term Capital and Operating Plan (LTCOP).

Our engagement journey – and how it shaped our submission – is illustrated in Figure 1 below.

Figure 1 – Our engagement journey and how it shaped our submission



We are committed to continuous improvement in our engagement and conducted a detailed exit survey on the quality of our consultation with both our Water Working Group and CAG participants. They provided extensive and overwhelmingly positive feedback; details are included in the Final Customer and Community Engagement Summary Report (Appendix 2), but here is some of what they had to say on our consultation process:

"WaterNSW went to great lengths to put this together and discussed it at great lengths."

"We were able to ask a range of questions as well as being able to provide feedback on what our views were. I liked that a number of WaterNSW senior staff were on the meetings."

"Have had good engagement and feedback this determination period."

"Information is transparent and well presented."

"Time was given to discuss the issues and responses from WaterNSW were detailed."

"Final outcomes made sense, but it was a slow pathway to get there."

"Felt a little rushed each CAG meeting due to the detailed discussion required and the volume and complexity of discussion."

[The engagement process was run] "better than in the past."

"It allowed an avenue to outline concerns."

"It's a bit of a work in progress but I can see our feedback was taken on board."

How we will deliver outcomes valued by our customers and communities

Our submission is focused on delivering on the outcomes that our customers most value. We are guided by six strategic, customer-focused outcomes that have been derived from hundreds of conversations with customers and developed through an iterative process across our regular engagements. These outcomes were embedded in our engagement and are present throughout our proposal. These outcomes, including how they interact with our corporate strategic priorities, are listed below:

1. **WaterNSW will maintain downward pressure on costs to support customer affordability** (aligned to our Deliver Operational Excellence corporate priority).
2. **WaterNSW will provide secure and reliable water delivery** (aligned to our Deliver Operational Excellence corporate priority).
3. **WaterNSW will be open and transparent (about customer charges and WaterNSW expenditure)** (aligned to our Working Together in Partnership corporate priority).
4. **WaterNSW will drive sustainable water and land management** (aligned to our Building a Sustainable Future corporate priority).
5. **WaterNSW will provide easy customer and community access to data and information** (aligned to our Respected by the Customers and Communities We Serve corporate priority).
6. **WaterNSW will provide good customer experiences (enabling our customers to run their businesses)** (aligned to our Respected by the Customers and Communities We Serve corporate priority).

We have identified performance measures for each of these customer outcomes. They represent increased customer value, at or above the base levels of service we are committed to through our operating licence requirements, and they are designed to demonstrate our commitment to continuous improvement, stretching our performance and making us accountable to our customers. These outcomes are based on the proposed expenditure requirements outlined in our proposal.

Our performance framework has been redesigned to align more closely with the outcomes our customers told us were most important to them, and to ensure we provide open and transparent reporting on our performance.

Material changes since the last determinations

There have been several significant events since the 2020 Greater Sydney determination and the 2021 Rural Valleys determination that have impacted on our costs and performance.

Over the past regulatory period, NSW experienced some of the worst flooding on record that devastated customers and communities. Flooding significantly impacted our ability to access our assets and led to a re-prioritisation of our emergency response over a number of successive years, all while maintaining a focus on the safety of both our communities and our employees.

We also experienced bushfires where we had to manage water quality issues, which also impacted the ability to access our infrastructure.

With the ever-present impacts of climate change and weather variability, we continue to work closely with Sydney Water and the NSW Department of Climate Change, Energy, the Environment and Water (DCCEEW) to assess drought supply options to secure water supply for our customers.

Notable challenges we expect to face over the coming five years include navigating a continuing uncertain macroeconomic and geopolitical future, addressing the impacts of climate change, environmental policy and legislative changes, and managing assets within acceptable risk tolerances whilst building greater resilience.

While WaterNSW will continue to attempt to absorb the costs required to manage these challenges, they continue to put upward pressure on our costs and performance outcomes in many instances.

Our focus on putting downward pressure on costs

We have acted prudently and efficiently to keep bills as low as possible, ensuring customers are not paying for costs we can avoid or risks we're best placed to manage. There are, however, many external macroeconomic factors and policy changes outside of our control that are placing upward pressure on costs and prices.

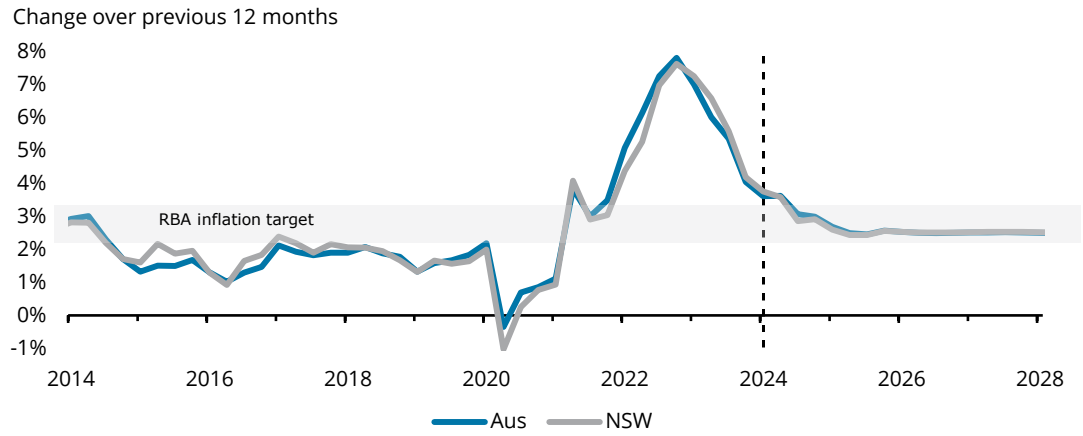
Costs outside our control

- **Business input cost increases** are placing a significant strain on our customers and communities. Following a long period where **inflation** was at or below the Reserve Bank of Australia's (RBA) target band of 2-3%, inflation spiked to 6.0% over the 12 months to June 2023, actual inflation for June 2024 was 3.8% and is forecast at 2.8% for June 2025.

The RBA indicated in August 2024 that inflation continues to moderate and is forecast to return to the target range of 2–3% in late 2025 and approach the midpoint in 2026. This is a slightly slower return to target than earlier forecasts and is due to greater inflationary pressures in the economy. [1]

[1] Reserve Bank of Australia Statement on Monetary Policy, August 2024. Overview.

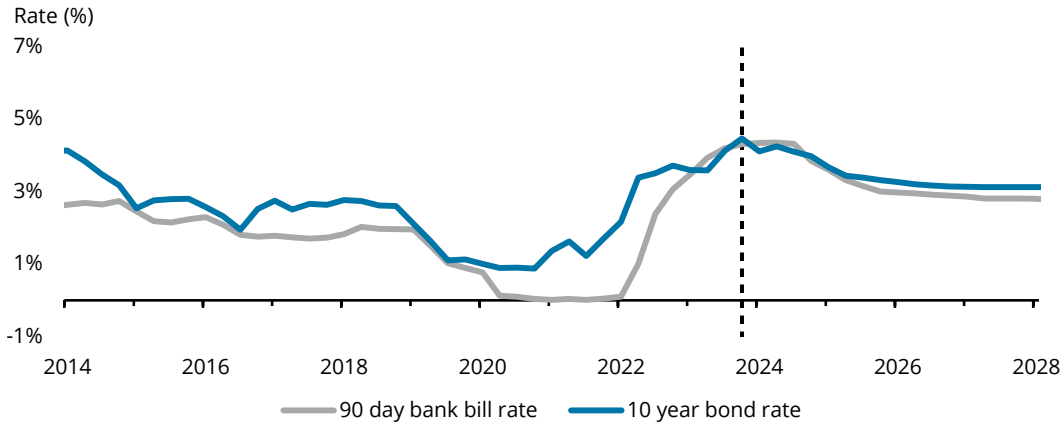
Figure 2 – Headline consumer price index growth



Source: Australian Bureau of Statistics; Deloitte Access Economics

- **Higher interest rates** have led to higher regulated rates of return compared with the current IPART determinations. Interest rate increases are placing significant upward pressure on regulated revenues, particularly for the Rural Valleys where historically low interest rates existed at the time the current 2021 Determination was issued.

Figure 3 – Australian short-and long-term interest rates



Source: Deloitte Access Economics; Reserve Bank of Australia

WaterNSW has calculated a **placeholder** post-tax real **WACC of 3.6%** for the 2025 Determination period for Greater Sydney and the Coastal Valleys. The placeholder post-tax real WACC for the **MDB valleys is 4.3%,** which is higher due to the need to transition to the trailing average approach adopted by IPART in its standard method.

This placeholder WACC represents an increase from the allowed rate of return of 3.4% for the 2020 Greater Sydney Determination and 1.8% from the 2021 Rural Valleys Determination that reflects increases in interest rates.

- **Wage cost increases** – The Wage Price Index (WPI) grew 0.8% in Australia and 0.6% in NSW

over the March 2024 quarter, with annual growth reaching 4.1% and 4.2%, respectively. Wage growth has remained at or above 4% for three consecutive quarters, which has not been seen since the March quarter of 2009. This is important as approximately 60% of WaterNSW operating expenditure relates to labour related costs. Competition in attracting and retaining employees places pressure on labour costs and service delivery. This also influences our supply chain costs, especially within the construction sector.

- **Construction cost increases** – Growth in the output of the construction industries placed considerable upward pressure on our costs in the current regulatory period. Price pressures in construction industry outputs continue to be driven by labour shortages in an environment with high industry demand. Recent increases in output prices have largely been driven by demand in the non-residential market as the infrastructure pipeline remains strong.
- **Higher petrol and diesel costs** – These represent some of the highest increases on record. Given our service area and the distance we travel between our assets – the equivalent of the distance from the earth to the moon and back again every month – higher fuel prices place upward pressure on our costs.
- **Other costs** – Many other input costs have risen above inflation, including electricity, insurance, land values, land tax, chemicals, engineering design and consultancy costs, software licence renewals, cloud and data consumption costs and travel placing upward pressure on our costs.
- **Legislative, policy and regulatory changes** – These are placing upward pressure on our costs. This includes **legislative changes** (for example, Commonwealth Security of Critical Infrastructure Act requirements, cyber security requirements, modern slavery, ESG reporting and NSW Dams Safety Act and Regulation compliance obligations); **policy changes** (for example non-urban metering policy, floodplain harvesting policy (coming soon), climate change plans and reporting); and **regulatory changes** (for example, data sharing agreements with DCCEEW and NRAR and increasing obligations arising from water sharing plans). Operating Licence changes are also expected to result in higher capital and operating expenditures, particularly in the Rural Valleys.

How we're putting downward pressure on costs

Specifically, to put downward pressure on costs in order to minimise the impact on our customers, as part of this proposal we have:

- proposed a capital program that is **$860 million lower** than originally assessed by taking on more risk, including by deferring expenditure where appropriate, as we feel we can still meet our legislative and regulatory obligations and customer outcomes albeit with higher operational and financial risk
- removed **$133 million over the 2025-30 period** from our total operating expenditure resulting from our ambitious efficiency program.

We are also looking at ways to leverage our operations and infrastructure to generate additional unregulated revenue sources, which will help to spread overhead costs, support absorbing revenue volatility risks, and share this benefit with customers with the resultant downward pressure on our already efficient costs. This includes:

- Leveraging the outcomes of programs under the Town Water Risk Reduction Program. Under this Program, WaterNSW has received $10 million from the NSW Government over two years (2023-24 to 2024-25) to provide additional support for councils and local water utilities which may lead to opportunities for cost reductions for regulated customers over time.
- Our Renewable Energy Program that benefits from partnering with private sector organisations.
- Our Environment, Social, Governance (ESG) Program which is exploring opportunities to generate income from the creation and trade of carbon and biodiversity credits

and/or certificates. This will be through the development of environmental projects such as tree planting and habitat protection.

We are confident that, over time, these additional revenue sources will:

- reduce the overhead costs to regulated customers
- diversify WaterNSW income sources to build a more financially sustainable business
- reduce the fixed costs for assets that can be put to dual use.

These initiatives may also help to provide some protection against other increasing costs and will continue to be evaluated during the 2025-30 Determination period. We envisage the benefits of these initiatives flowing through to our customers in the subsequent (2030-35) determination period.

A greater presence where our customers live and work

We're local partners - living and working side-by-side with our customers and communities across the state. Our customers want us to be a visible and supportive member of the community. They value face-to-face engagement and our operational experts on the ground in their local communities.

We have been responding to what we've heard through the implementation of our new operating model, which has included increasing our operational employees, particularly those living in the communities that they serve, and bringing on board dedicated general managers based in the regions. We have also employed more water, planning and delivery employees directly in the regions and simultaneously reduced the number of senior, non-operational employees. We are also building a team of stakeholder engagement experts who live in the regions and can be helpful experts to customers and the community and a conduit for queries, so operational employees can focus on managing water delivery or projects.

In a further response to customer feedback, we have included an uplift to our education and awareness campaigns that focus on public safety, sustainability, wellbeing and customer support, and enhanced community sponsorship.

Our partnerships with local traditional owners and Aboriginal community groups are closer and deeper than ever before. Over the past two years, we've worked together to co-design a program of meaningful long-term initiatives – through our Reconciliation Action Plan – that will make a genuine difference in our communities. We are committed to better cultural understanding and recognition of Aboriginal cultural heritage, and our new co-design principles for project work is allowing us to work with traditional owners with significant savings on projects in terms of time and money.

A committed and engaged management and Board

Our Board and Executive Leadership Team (ELT – comprising the CEO and all Executive Managers) have demonstrated ownership of, and commitment to the pricing proposal and its outcomes via their guidance, direct engagement with customers and review over the past two-and-a-half years.

The Board played an active role during the pricing proposal development through its involvement in IPART's early engagement process, and through regular briefings as part of a quarterly Board Sub-Committee and regular monthly Board updates.

Our CEO led fortnightly discussions and monthly workshops at ELT meetings to oversee the development of the submission and challenge management's proposals from inception, through to the customer engagement process.

Our Board and ELT challenged themselves to take a critical look at the way we balance risk between our business and our customers. The result is a more active and critical consideration of risk and uncertainty, and the way these impact our revenue building blocks.

We engaged external independent experts to review our investment governance and investment processes, and to assist in developing detailed business cases and project justifications to support our proposed capital expenditure program for all major capital projects. We also engaged experienced and highly skilled consultants to assist in our customer engagement and consultation, our submission development and to provide assurance about the quality of our proposals and supporting information and compliance with IPART's 3Cs framework.

WaterNSW notes that, ahead of the 2025 Determination, IPART engaged FTI Consulting to undertake a detailed review of WaterNSW's key business systems and processes. In its final report, FTI found that:

"Based on our review, WaterNSW's systems and processes appear to be appropriate and fit for purpose, and consistent with expectations for a utility organisation such as WaterNSW. The frameworks and processes are also generally supported by well-developed, and relevant and comprehensive guidelines and templates to ensure consistent application and usage... the approach to corporate risk management adopted by WaterNSW, and the supporting documentation sighted in the review, are consistent with good practice as would be expected for a utility business such as WaterNSW". [2]

This finding supports WaterNSW's commitment to managing risks (and the impact on costs) during the 2025 Determination period. The outcomes of IPART's targeted review should provide confidence to IPART and our customers that our proposed investment programs are prudent and efficient.

The pricing proposal development process and the insights gained from our engagement process play a key role in the WaterNSW strategic planning process. We are feeding back these customer insights into our long-term and operational plans and have used the learnings to help shape our future engagement plans and activities.

Our approach to risk management

We have analysed the key risks that could impact the costs of providing services over the determination period, to determine how each is best addressed. We have sought to consider these risks holistically across the 'regulatory compact', and through this determination are seeking prices and a framework that allow us to efficiently manage and – where appropriate – share risks with our customers. Ultimately, we consider that our proposal represents a fair sharing of risk while respecting and protecting the long-term interests of our customers and the wider community.

WaterNSW has taken on considerable additional risk to help place downward pressure on our costs over the 2025 determination period, and we have approached the management of risks for this period in a holistic manner that draws on the mechanisms outlined in the 3Cs Handbook:

1. Ensure risks associated with our proposal are identified and quantified.
2. Identify the mechanisms to manage those risks.
3. Guide how risks should be allocated between customers and WaterNSW.

[2] FTI Consulting 13 December 2023 WaterNSW Systems and Process Review – Independent Pricing and Regulatory Tribunal - Final report, page 6

Figure 4 – Risk management and how we propose to address major risks.

Category	Risks	Impact - cost or revenue?	Mechanism	Risk allocation
Systematic risk	Risks that cannot be eliminated through diversification e.g. macroeconomic factors impacting rate of return / WACC	Cost	**WACC / cost of debt true-up**	Business
Business-specific risk	Employee, contractor and public safety in relation to operating and maintenance, breach of licence, equipment failure	Both	**Cost allowance** (to meet good industry practice – complying w/ licence conditions) Self-insured to deductible limit ($10K per claim event)	Business
	Natural disasters, major asset failure	Both	**Cost allowance** (insurance)	Business (via insurers)
	Water usage compared with regulatory forecasts	Revenue	**Cost reflective tariff structures / Revenue Cap**	Shared
	Insurance cap/credit/coverage event regulatory & service standards/tax changes	Cost	**General cost pass through**	Customers
	Movements in annual energy prices Shoalhaven transfer scheme costs	Cost	**Nominated cost pass throughs**	Customers
	New projects/spending driven by ongoing customer engagement	Both	**Targeted reviews / letter of comfort**	Shared
	Ability to deliver services is materially affected and a true-up not suitable (e.g. Low probability / high consequence events)	Both	**Partial or Full reopener**	Shared

WaterNSW proposes applying IPART's key risk management mechanisms that we consider meet these regulatory principles. These mechanisms are outlined in Section 6 of this pricing proposal and discussed in detail in Attachment 27.

Figure 5 – Proposed approach to managing cost risk in the 2025 determination period

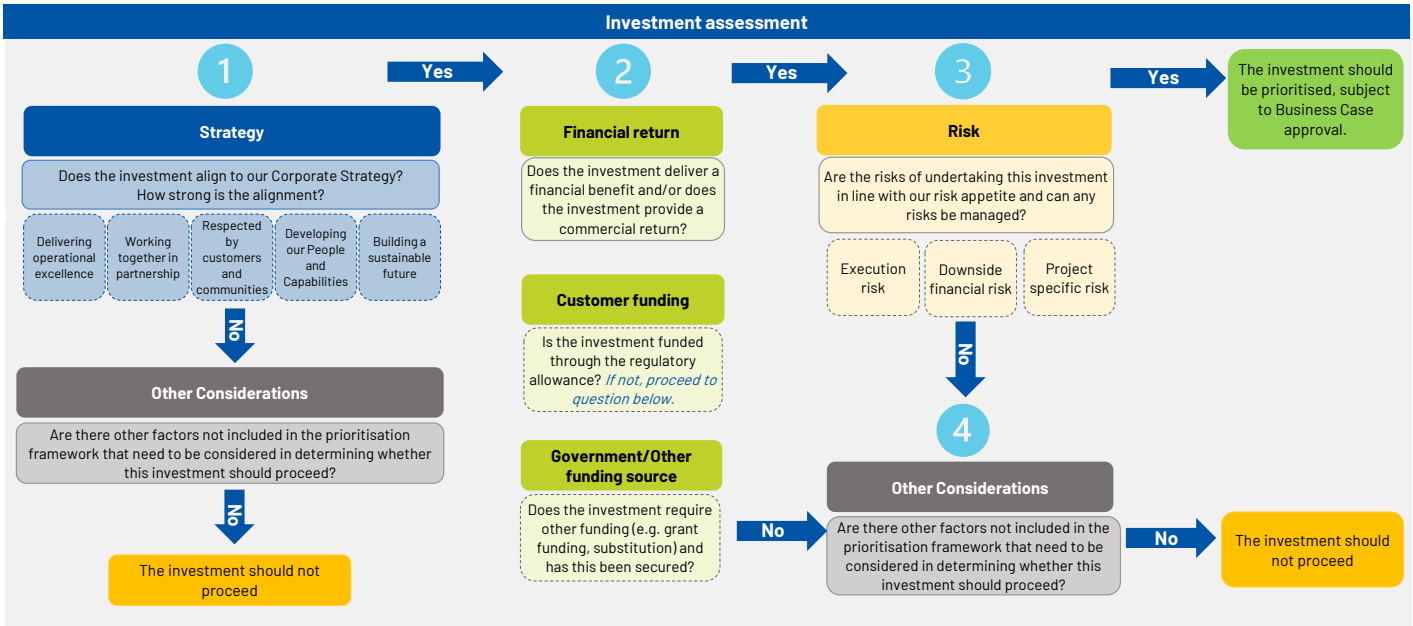
Category	Description	Event
Cost pass throughs	**Nominated events** Specific events where the costs cannot be accurately assessed at the time of the determination	**6 Nominated Events** Shoalhaven Transfers Scheme costs; Chaffey pipeline pumping costs; Warragamba Deep Water Pump Station costs; projects undertaken for Government; Operating Licence amendments; Non-Urban Metering reform costs
	General events Activities and associated costs cannot practically be identified at the time of the determination, but the cost impacts are likely to be material.	**7 General Events** A regulatory change event; a service standard event; a tax change event; an insurance coverage event (costs beyond the insurance cap and beyond the reasonably available insurance cover); an insurer's credit risk event; a natural disaster event and a terrorism event.
True-ups	Recovery of changes in benchmark or actual costs at the subsequent determination. Appropriate when costs are material and outside of the control of WaterNSW	**2 True-ups** Electricity cost true-up / Sydney Desalination Plant volume true-up
Full or partial reopener	Partially or completely replace a determination where the ability to deliver services is materially affected, and a business cannot wait for a true-up of efficient costs, and a cost pass-through has not already been set. To be invoked only as required.	

Our proposed investments

We have introduced an organisation-wide approach to prioritising our proposed investments at the corporate level. Our approach assesses proposed investments against a set of guiding principles and constraints to support investment decision making and bring transparency to the basis of choices we make as an organisation, irrespective of whether the investment is in infrastructure assets, digital projects or operating activities.

Figure 6 provides a summary of the framework and processes used. It includes consideration of risk as part of the prioritisation process, consistent with the organisation's broader risk assessment framework, and competing needs within each funded area of service.

Figure 6 – Overview of WaterNSW's investment prioritisation framework and processes



Our $3.4 billion investment program over five years is focused on prioritising investment on ageing infrastructure and digital transformation of end-of-life business technology.

WaterNSW continues to invest in renewing or replacing ageing infrastructure and in our transformation into a more customer-engaged and digitally enhanced business through our business transformation program. We remain committed to managing costs in a manner that is transparent, collaborative and relevant to deliver the outcomes our customers demand. The overall investment program is designed to achieve benefits in the following areas:

- Real time data helps customers run their businesses
- Customers' needs are better understood
- Increased self-service
- Better customer experience
- Reduced operating risk
- Renewal of ageing assets
- Reduced operating costs and increased productivity
- Proactive repairs prolong the life of our assets
- Advanced network monitoring
- Better land management
- Emissions tracking
- Reduced water losses
- Adapting to climate change

Operating expenditure

WaterNSW's analysis for our current period operating expenditure forecasts for the 2025 Determination period for Greater Sydney, Rural Valleys and WAMC (WaterNSW only) services is provided according to the Base-Trend-Step (BTS) approach required by IPART under the 3Cs framework.

When developing our Base-Trend-Step-based forecasts, consideration is given to:

- the appropriate allocation of shared costs categories (for example, corporate costs)
- the efficient base year (net of adjustments and new obligations)
- material operating expenditure risks.

Our operating expenditure forecast is reflective of a real increase in prices, output, efficiency savings, step changes and non-controllable operating expenditure. Our detailed Base-Trend-Step analysis, including our forecasting methodology and our cost allocation methodology, is discussed in more detail in Section 9 and Attachment 8.

Introduction

WaterNSW has undergone significant transformation in our people and processes necessary to better serve our customers, meet regulatory requirements and manage our costs efficiently in the face of significant cost inflation pressures.

Our transformation is driven by organisational change, legislative change and inflationary pressures as summarised below:

Organisational change

Central to IPART's 3Cs framework, WaterNSW has undergone a period of significant organisational change since 2022 with a new operating model and workforce plan. This change ensures we have the skills, capability, and resources to:

- ensure compliance within WaterNSW to new and existing regulations
- implement measures to mitigate risks and maintain operational integrity
- deliver services that meet or exceed customer preferences and needs including the primary work location of senior leaders and customer facing teams
- continuously gather and analyse customer feedback to identify areas for improvement.

In the face of increasing costs and requirements placed on the business, WaterNSW assessed that continuing a business-as-usual approach would not achieve the efficiencies we were seeking and would lead to higher costs and put pressure on service, customer outcomes and customer affordability. Therefore, a new approach was needed.

We embarked on a two-year journey in 2022-23 to introduce a new operating model that would streamline our systems and processes and ensure resourcing levels were at efficient levels to achieve the lowest sustainable cost. This journey resulted in some initial reductions to our operating expenditures through employee departures and unsustainable vacancy rates as a new organisational structure was implemented. This is reflected in the operating expenditures in 2022-23 and 2023-24 being below a sustainable level in our latest actual results.

This has been a cascaded change process which commenced by filling key leadership positions followed by recruiting for their direct reports. We expect 2024-25 will be our first completed year without disruptions such as those caused by vacancies and open roles. This will put WaterNSW in a strong position to meet our regulatory and legislative obligations and deliver the outcomes our customers demand and the lowest sustainable cost moving forward.

The new operating model resulted in an overall increase in our full-time equivalent (FTE) resourcing and salary and wage expenditure. This increased labour is to provide improved service to our customers and support improved outcomes. The

overall impact of our transformation was to lower costs below the level they would have been had we not implemented the deliberate reduction in non customer facing senior roles. While roles were also added to the structure, there are corresponding cost savings associated with reduced contractor expenses and agency spend.

As discussed in Section 9 and in Attachment 9, and summarised below, our forecast operating costs would have been significantly higher had it not been for the efficiencies delivered over the past two years. The largest contributor to these savings is the reduction in the number of senior leadership roles, reduced property leasing costs and reductions in contract labour.

Regulatory change

WaterNSW has a multitude of regulatory obligations it must comply with to ensure we operate safely, efficiently, and sustainably, while protecting public health, the environment and customer interests.

IPART has recently conducted an end-of-term review of WaterNSW's operating licence 2022-2024, which expired on 30 June 2024. IPART recommended to the Minister a new operating licence for WaterNSW, which came into effect on 1 July 2024. The new operating licence has several new obligations compared to the previous licence that have a substantive effect on costs.

Additionally, WaterNSW has identified a number of regulatory obligations in the upcoming determination period which will require programs of work and recurrent operating expenditure to ensure ongoing compliance. These are expanded upon more comprehensively in Attachment 22.

Inflationary pressures

Like many other organisations, the macro-economic environment has also impacted the cost structure of WaterNSW as inflation (as measured by the Consumer Price Index (CPI)) has risen by 6.1% in 2021-22, 6.0% in 2022-23, and 3.8% in 2023-24. Inflation has led to rising costs for energy, chemicals, fuel, labour, insurance and land tax.

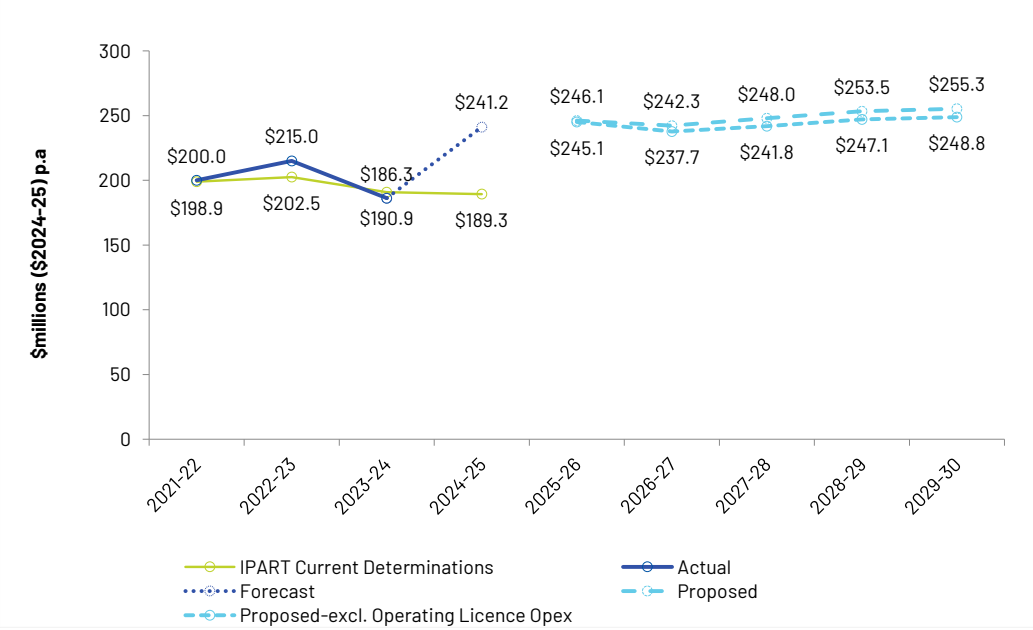
Over the 2025 Determination period we expect some of these cost pressures in relation to energy, fuel and chemicals to ease. However, we project input costs to increase above the rate of CPI from 2025-2026 onwards for land taxes due to land valuations, (over 8% per year), insurance premiums (7% per year), labour wage costs (1% per year) and digital software licensing costs and cloud consumption (over 1% per year) over the next five years.

Though we intend to continue to absorb some of these cost increases through efficiencies in our operations (including procurement), and better management of risks, an estimated compound annual increase of 0.26% above inflation in operating expenditure is projected for each year of the 2025 Determination period.

Operating expenditure summary

WaterNSW's proposed Base-Trend-Step operating expenditure for the 2025 Determination period is **$1.2 billion** ($1,245 million), which is a 25.6% increase in real terms compared with our expected operating expenditure for 2020-25 over five years as illustrated in Figure 7 below.

Figure 7 – Actual, allowed and forecast opex for WaterNSW (combined) ($m, $2024-25)



Our WaterNSW Base-Trend-Step operating expenditure for the 2025 Determination period is shown in Table 1 below and discussed in the following sections.

Table 1 – WaterNSW Base-Trend-Step operating expenditure ($m, $2024-25)

	2022-23 Base Year	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Base	$201.1	$201.1	$201.1	$201.1	$201.1	$201.1	$1,005.5
Base adjustment	$33.6	$33.6	$33.6	$33.6	$33.6	$33.6	$167.8
Adjusted Base	$234.7	$234.7	$234.7	$234.7	$234.7	$234.7	$1,173.3
Trend		$1.8	$2.3	$3.3	$4.8	$5.3	$17.5
Step		$9.6	$5.3	$10.1	$14.0	$15.3	$54.3
Total Opex		**$246.1**	**$242.3**	**$248.0**	**$253.5**	**$255.3**	**$1245.1**

Efficient base year

Our operating expenditure forecast begins with a **2022-23 base year** actual expenditure of **$201.1 million**. WaterNSW proposes **base year adjustments of $33.6 million**. This leads to an adjusted base year operating expenditure of $234.7 million for WaterNSW regulated activities. We have excluded costs associated with the Wentworth to Broken Hill Pipeline, MDBA, unregulated Weirs and non-core (unregulated) projects.

To ensure that the base year is representative for forecasting future expenditures, we propose several adjustments, totaling **$33.6 million** in each of the next five years. To ensure that the base year is

representative for forecasting future expenditures, we propose adjustments for:

- removal of one-time operating expenses incurred during 2023-24 as these are not recurrent
- added new or increased recurring operating costs up to June 2025
- added new efficiency targets starting with 2024-25
- the net allocated position of the central overheads pool calculated in accordance with the corporate allocation methodology.

The key base adjustments are identified in Section 9 and Attachment 8 and are summarised below. The most material changes are:

- **Cost escalation factors and provisions** – these relate to inflationary impacts that have occurred between 2023 and 2024-25 (+$26.3 million)
- **Employee and contract labour costs** – these reflect the updated WaterNSW Enterprise Agreement 2023, which took effect in late 2023 and expires in 2026. The total average wage increase was 4.93% in both 2023-24 and 2024-25, comprising a 4% annual increase and a 0.93% increase for progress payments. Non-EA employees received a consistent 4% annual increase.

  Additionally, due to changes in Superannuation Guarantee legislation, the costs increased from 10.5% to 11% in 2023-2024 and further increased to 11.5% in 2024-2025. The increment was included in the 4% increase for non-EA employees but was separate for EA employees (+$8.4 million). Superannuation costs have increased in line with the Superannuation Guarantee legislative requirement and are scheduled to increase to 12% on 1 July 2025.

- **Land tax** – there has been a significant increase in the land value of the portfolio valuation of 17% in 2021 and 30% in 2022. This has resulted in a 22% increase in WaterNSW 2023 land tax obligations. Further, WaterNSW has significant holdings of land which have not historically been valued by the Valuer General but which Revenue NSW has advised it will request the Valuer General to value as part of WaterNSW land tax assessment process (+$5.3 million).
- **Operating model related cost changes** - increased salaries and wages to meet regulatory and legislative obligations (+$24.7 million) as discussed further below.
- Partially offsetting these increases are the following proposed **negative adjustments**:
  - **efficiency improvements** arising from our cost transformation program (-$2.4 million)
  - **overhead allocation adjustment** to normalise treatment (-$14.1 million)
  - **flood damage insurance** payout (-$4.8 million).

New operating model

In addition to the items above, WaterNSW is proposing a base adjustment of $24.7 million relating to the implementation of our new operating model. WaterNSW finalised the development of its current Corporate Strategy in early 2021 and a key initiative was to review the operating model and organisational capability across the organisation to ensure there is confidence in delivering the outcomes and objectives of our new Corporate Strategy.

Drawing on advice from a specialist advisory firm, WaterNSW made changes to the organisational structure together with changes to governance mechanisms, processes, and speed of decisions, streamlining of accountabilities and clearer targets and priorities. This is discussed in more detail in Section 9 and Attachment 8.

The recommended organisational structure included changes to, and a reduction of, the number of Executives and senior leaders, to support a new leaner Portfolio structure.

The proposed changes to the operating model comprised five design objectives and six design principles that in combination enabled WaterNSW

to deliver on our corporate strategy. The proposed approach to achieving these was to consolidate a number of our current operational, corporate, regulatory and strategy functions into consolidated 'Portfolios'. The recommended organisational structure also supported the creation of a corporate affairs function and re-imagining our ICT functions as a more strategic and focused digital transformation capability for the business.

An objective of the operating model was to partially offset front-line employee increases by the reductions in senior leader numbers, as well as cost efficiencies through insourcing labour. This change was also in response to customer preferences and needs. In addition to the restructure, which created several positions that were filled throughout 2023-24, the increase in employee numbers is partially offset by reductions in contractors.

Without the uplift in these areas, we would not have been able to achieve the objectives outlined in the IPART 3Cs handbook.

The base adjustment proposed for operating model changes is $24.7 million of which:

- $10 million is for additional headcount, the details of which are set out in Attachment 8. WaterNSW increased its employee numbers in some functions during the current period to achieve the intended outcomes of the new operating model. The increase in employee numbers was a combination of an increase in resourcing for continual improvement, implementation of augmented management operating systems, and key enabling systems.
- There are other normalisations that increased salary costs that relate to vacancies, investing in closing the gap on critical resources to increase efficiency of delivery, new capabilities to meet legislative and regulatory compliance obligations and improved services (for example new cybersecurity capabilities to deliver SoCI Act compliance & resourcing to support increasing demands from NSW water sector and operating licence obligations).

In addition to the new headcount there has also been normalisations for the base year that relate to vacancies ($5 million), capability uplift mostly from the operations area ($1 million), continuous uplift mostly on existing ICT platforms and systems ($3.5 million) and improved accuracy of the project salary costings that has resulted in a reduction in corporate overheads.

Further to the base year adjustments identified above, WaterNSW has removed around $20 million in base year costs leading to aver $90 million of savings in our pricing proposals due to our efficiency savings achieved to date.

Trend costs

Total **trend costs of $17.5 million** are proposed over the five-year determination period. This comprises wage increases, insurance premiums and land tax valuations that are partially offset by cost transformation savings of $32.8 million as illustrated below.

The table below reflects WaterNSW's proposed rate of change.

Table 2 – WaterNSW operating expenditure trend (rate of change p.a. above CPI)

Trend change (above CPI)	2025-26	2026-27	2027-28	2028-29	2029-30
Labour	1%	1%	1%	1%	1%
Digital	2.2%	0%	1.1%	1.9%	-4.9%
Insurance	7%	7%	7%	7%	7%
Land tax valuation	8.37%	8.37%	8.37%	8.37%	8.37%
Efficiency improvement	1%	1%	1%	1%	1%
Rate of Change p.a.	**0.18%**	**0.31%**	**0.38%**	**0.53%**	**1.30%**

The rate of change is the cumulative trend (see table below) divided by the adjusted base. Table 3 reflects the total operational expenditure impact of the trend changes.

Table 3 – Trend costs as part of the 'Base Trend Step' calculation ($m, 2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Labour	$1.2	$2.3	$3.5	$4.6	$5.8	$17.3
Digital	$1.0	$1.0	$1.5	$2.4	$0.0	$6.0
Insurance	$0.8	$1.4	$1.7	$2.1	$2.3	$8.3
Land tax valuation	$1.1	$2.3	$3.6	$5.0	$6.6	$18.6
Efficiency savings	-$2.3	-$4.7	-$7.0	-$9.3	$9.3	-$32.8
Trend total	**$1.8**	**$2.3**	**$3.3**	**$4.8**	**$5.3**	**$17.5**

The following summarises our proposed trend costs:

- **Labour costs** for the forecast period are forecast to change from the base year, against a recent trend low annual growth. Labour costs are a function of price (wages) and quantity (full-time-equivalent (FTE)).

  Wage cost increases are expected to outstrip inflation over the next few years. This is important as approximately 60% of WaterNSW operating expenditure is labour and competition for finding and retaining talent places pressure on labour costs and service delivery.

- **Digital costs** – WaterNSW's adoption of cloud computing aligns with industry trends towards hosting digital services that scale rapidly in response to customer demand, and support more agile development of new services. Cloud costs are increasing with additional data, new functions for customers, improved security and vendor price rises, at a rate above inflation. Cloud costs have grown by over 22% annually since between 2023 and 2025 and are forecast to rise 16% annually, which compares favourably with the NSW Government benchmark of 26%.
- **Insurance costs** – Insurance rates are increasing globally due to escalating frequency and severity of global risks, including major weather events, climate change and instances of cybercrime. As outlined in Attachment 8, historically insurance rates have increased by 17.4% per annum (2020-21 – 2024-25). We expect this trend to continue and have estimated an increase in insurance rates by 8.6% p.a. (2024-25 to 2029-30).
- **Land tax valuation** – Land tax is calculated on the total value of taxable land above the land tax threshold and is determined on the average land value from the current year and the two past years as determined by the NSW Valuer General. Historically, valuations for our land holdings have increased by 11.7% per annum driven by increases in the market value of land. We expect this trend to continue and have estimated an increase in land valuations by 8.4% per annum over the 2025 Determination period.
- **Efficiency savings** – Included in the figures above is a cumulative productivity growth rate of 1% per annum, leading to $32.8 million of efficiency savings over the next five years. When combined with $2.3 million of 2024-25 savings, WaterNSW proposes $44.3 million of efficiencies over the 2025 Determination period.

Step changes

WaterNSW is proposing **step changes of $54.3 million** in our operating expenditure forecast against our adjusted base year over the next five years. These step changes account for externally driven costs and to fulfil our regulatory obligations.

These costs are not accounted for in the base year or trend and cannot be absorbed in the upcoming determination period. Proposed step changes are detailed in Attachment 8 and illustrated below.

Table 4 – Summary of proposed step changes for WaterNSW ($m, 2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
New operating licence conditions	$0.8	$3.7	$5.1	$5.1	$5.1	$19.9
Compliance uplift: Existing regulatory requirements	$6.9	$6.6	$5.9	$6.4	$6.4	$32.3
New regulatory requirements	$0.8	$0.7	$0.7	$0.7	$0.7	$3.6
New recurrent controllable opex resulting from new capex	$1.3	$1.3	$1.3	$1.6	$1.2	$6.6
Grant expiry	$0.4	$1.4	$1.7	$1.2	$0.7	$5.5
Water licence fees	$3.6	$4.3	$5.1	$5.9	$6.8	$25.7
Regulatory submission	-$2.1	-$2.0	$0.0	$0.8	-$1.3	-$4.6
Other- Allocated overheads	-$2.1	-$10.8	-$9.7	-$7.9	-$4.2	-$34.7
Total	**$9.6**	**$5.3**	**$10.0**	**$14.0**	**$15.4**	**$54.3**

The following summarises our proposed step changes in our operating expenditure forecast for WaterNSW (Greater Sydney, Rural Valleys and WAMC (WaterNSW only). More detail is available in Attachment 8.

New operating licence conditions

IPART conducted an end-of-term review of WaterNSW's operating licence 2022-2024 which expired on 30 June 2024. IPART recommended a new operating licence for WaterNSW, that came into effect on 1 July 2024.

Once the final operating licence was issued, we were able to understand and more accurately quantify the scope of the new operating licence requirements. While there is some discretion in the scope and/or timing of the obligations, we have developed costings based on a maximum value for money proposition. This proposition relies on some underlying assumptions of scope and timing that are yet to be resolved with IPART and DCCEEW, which we will endeavour to address over the coming months.

Based on our understanding of the likely licence changes, we estimate the cost implications to be $24.7 million (including $19.9 million in direct costs as shown in Table 4 above) over the five-year determination period, with the majority of the impact to be incurred in the Rural Valleys.

Compliance uplift – existing regulatory requirements

Step changes of $32.3 million in operating expenditure over the five-year determination period are required to ensure that WaterNSW is compliant with existing requirements, where there is currently non-compliance. This includes:

- **Land Management Program** –the 2015 Biosecurity Act includes new obligations on landholders to manage pests and weeds.

WaterNSW responded well to those changes across its Declared Catchment holdings in its last Greater Sydney pricing proposal price; however, these responses were not replicated across our rural land holdings. Similarly, following the 2019-20 bushfires and subsequent State and Federal inquiries, significant changes were introduced to standards regarding bushfire management. WaterNSW is not currently managing its lands and associated recreational facilities to meet the Australian Building Code, Fire Trail Standards mandated by the Rural Fire Service or meeting its general biosecurity duty under the Biosecurity Act. Key improvements will be for recreational facilities, surrounding communities and farmers ($21.2 million).

- **Crane Safety Improvement** - WaterNSW has over 280 assets that are considered cranes, winches or hoists. The development of the WaterNSW Cranes and Lifting Equipment Asset Class Strategy identified a number of improvement opportunities around the management of cranes assets. This included alignment of existing maintenance strategies to industry best practice and Australian Standard Requirements. Completion of this activity will ensure compliance with Australian Standards, the Work Health Safety Act 2011 and Work Health Safety Regulation 2017, and actively reduce one of our safety risks that can have significant consequences if left untreated ($6.4 million).
- **Electrical Safety Program** - The primary objective of the Electrical Safety Improvement (ESI) program is to identify, quantify and manage major electrical safety risks across WaterNSW powered sites. This is a continuation and expansion of the electrical safety program previously allowed for by IPART in its 2021 Rural Valleys Determination. The risk of not addressing the current state is potential harm to workers and plant and breach of Work Health and Safety Act and Regulation requirements as well as non-compliance with International Organisation for Standardisation (ISO) 55001 - Asset Management System. ($1.1 million).

Water licence fees

Impacting the Greater Sydney Determination, the increases in water licensing fees are made up of higher overall costs of Water Management and Planning Functions as per the WAMC pricing proposal and higher overall cost of Fish River Transfers for the Greater Sydney Region ($25.7 million).

Other step changes (positive and negative)

Additional step changes in operating expenditure are required over the five-year determination period, due to several items, including:

- **New regulatory obligations** – Step changes in operating expenditure are required to ensure that WaterNSW is compliant with new regulatory requirements. New step changes to meet new regulatory requirements include the Security of Critical Infrastructure (SoCI) Act compliance, Fleet Telematics, Environmental & cultural water, and Operational property upkeep ($3.6 million).
- **New recurrent controllable opex resulting from new capex** – Higher opex due to additional capital expenditure is as a result of to several investments, including the Chaffey pipeline and Fish River Dosing and Sludge Lagoon ($6.6 million).
- **Grant expiry** – The Water Modelling Team are currently funded under a grant (up to FY26 – funding expiring June 2025) to develop hydraulic and hydrologic modelling into Computer Aided River Management (CARM). These ongoing core activities are vital to ensure the continued and effective functioning of the CARM model in enhancing the understanding of river systems, supporting river management decisions and ensuring water is delivered when and where it matters for our customers and communities ($5.5 million).
- **Regulatory submission** – A reduction to the adjusted base year to reflect that pricing proposal costs were included in the 2022-23

base year that would not be incurred in each year of the 2025 Determination period (-$4.6 million).

- **Allocated overheads** – WaterNSW's Cost Allocation Manual (CAM) provided as Appendix 7 outlines how we distribute corporate costs across our regulated and non-price regulated service streams. The allocation of costs to WaterNSW's supplementary activities (non-core) and other non-regulated services do not form part of IPART's pricing determination, and the costs are therefore excluded. The application of the CAM results in a negative base year adjustment (-$34.4 million).

The following sections outline how the total WaterNSW proposed operating expenditure is recovered through the Greater Sydney, Rural Valleys and WAMC (WaterNSW only) pricing proposals.

Total WaterNSW operating expenditure

Our combined operating expenditure programs for our Greater Sydney, Rural Valleys and WAMC (WaterNSW only) services derived from applying IPART's Base-Trend-Step (BTS) approach from Figure 7 above are shown in Table 5 below. We are proposing a combined operating investment program of $1.2 billion ($1,245.1 million) (a 25.9% increase in real terms, over the current determination average) over five years that is the lowest sustainable cost to deliver on our regulatory and legislative obligations and to meet our customers' requirements.

The annual average of our proposed operating expenditure is 3% higher than our forecast 2024-25 operating expenditure ($241.2 million), which reflects that the increasingly higher costs outside of our control facing the business have largely been offset by our cost transformation efficiencies.

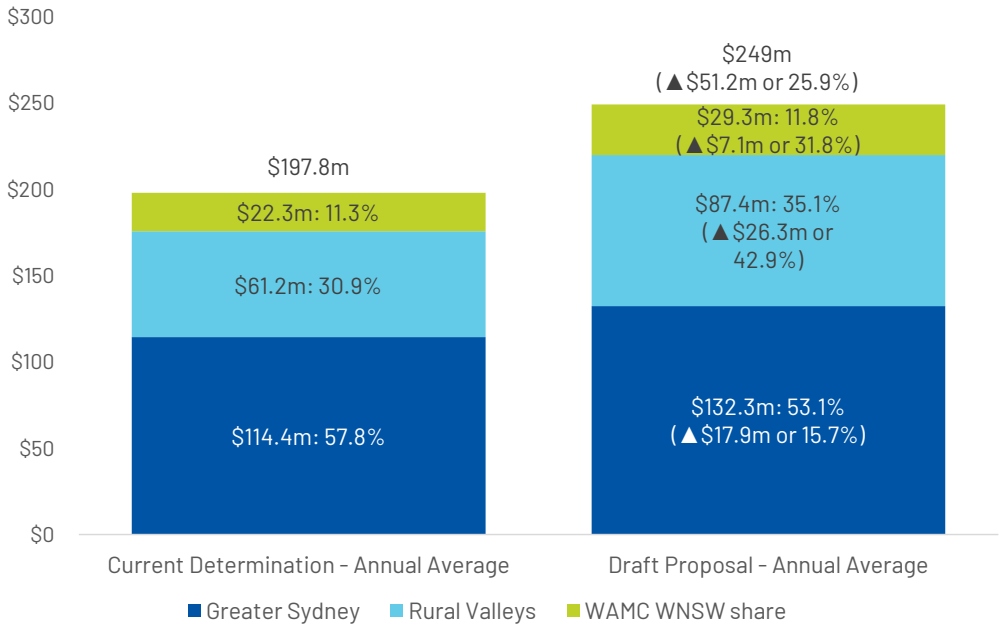
Table 5 – WaterNSW total average annual operating expenditure ($m, $2024-25)

	Current Determination Annual Average	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Average FY26-FY30	Annual Average Variance%
Total Operating Expenditure	**$197.8**	**$246.1**	**$242.3**	**$248.0**	**$253.5**	**$255.3**	**$1,245.1**	**$249.0**	**25.9%**
Greater Sydney	$114.4	$133.4	$128.1	$129.9	$134.0	$135.9	$661.3	$132.3	15.7%
Rural Valleys	$61.2	$83.8	$84.7	$87.6	$89.6	$91.5	$437.2	$87.4	42.9%
WAMC (WaterNSW)	$22.3	$28.9	$29.5	$30.5	$29.9	$27.8	$146.6	$29.3	31.8%

* Excluding non-urban metering or costs relating to fee for services

The figure below compares the average annual operating expenditure allowed by IPART in the 2020 Determination with the proposed annual average for the 2025 Determination period. As we are comparing a four-year current determination with a five-year upcoming period, we have used the average annual expenditure as the basis of comparison.

Figure 8 – Average annual operating expenditure – current determination and proposed ($m, $2024-25)



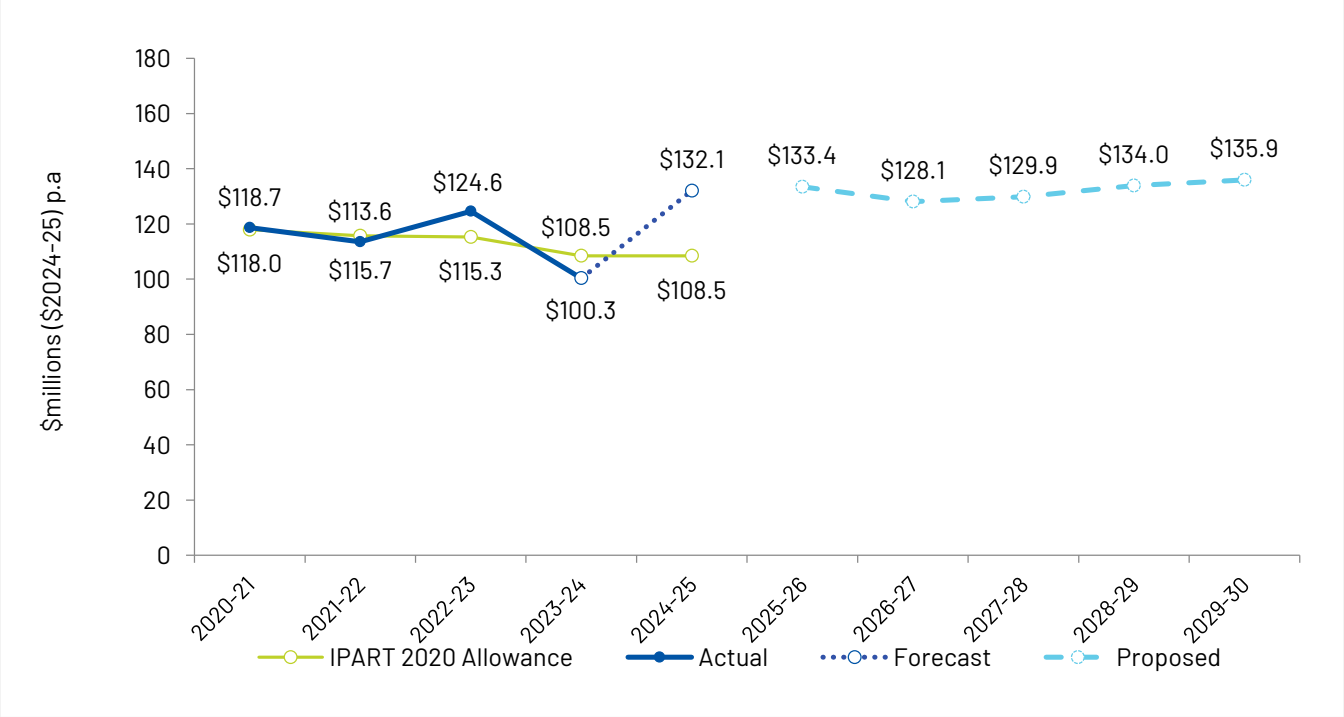
WaterNSW is proposing step changes from the 2022-23 adjusted base year for the 2025 determination period representing **$78 million**. The key factors leading to step changes in our proposed operating expenditure are identified in Table 2 below and discussed in Section 9.

Proposed operating expenditure - Greater Sydney

Greater Sydney's estimated total operating expenditure forecast for the upcoming 2025-30 determination period is $661.3 million, representing a 15.7% increase in real terms ($2024-25) compared to our IPART allowance for the 2020 Determination period.

As illustrated below, our proposed Greater Sydney operating expenditure ranges from $133.4 million in 2025-26 to $135.9 million in 2029-30, an increase of 1.87%. The proposed annual average operating expenditure of **$132.3 million** is $17.9 million per year, or 15.7% higher than the average annual amount of $114.4 million from the 2020-25 Determination.

Figure 9 – Actual, allowed and forecast operating expenditure for Greater Sydney ($millions, $2024-25)



* Note that the IPART 2020 Greater Sydney allowance for 2024-25 equals the 2023-24 value on the basis that the deferral year (2024-25) sets a price path, but IPART has not made a determination on the efficient expenditure allowances for that year.

Our proposed operating expenditure for Greater Sydney for the 2025 Determination period based on the Base-Trend-Step methodology is illustrated below.

Table 6 – Base-Trend-Step operating expenditure for Greater Sydney ($m, $2024-25)

	2022-23	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30
Base	**$116.5**	**$116.5**	**$116.5**	**$116.5**	**$116.5**	**$116.5**	**$582.7**
Base Adjustment	$12.1	$12.1	$12.1	$12.1	$12.1	$12.1	$60.5
Adjusted Base	**$128.6**	**$128.6**	**$128.6**	**$128.6**	**$128.6**	**$128.6**	**$643.2**
Trend		$1.0	$1.5	$2.0	$2.6	$2.7	$9.7
Step		$3.8	-$2.0	-$0.7	$2.7	$4.6	$8.4
Total Operating Expenditure		**$133.4**	**$128.1**	**$129.9**	**$134.0**	**$135.9**	**$661.3**

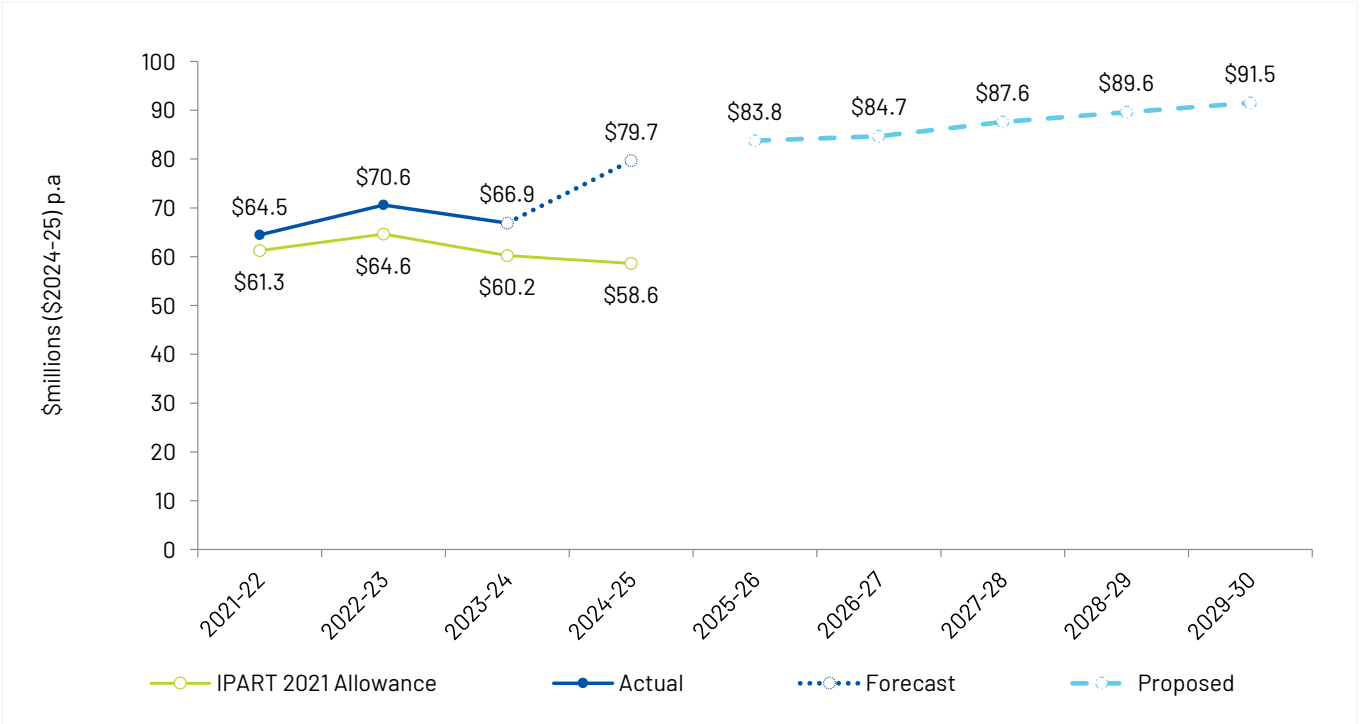
More details on the Greater Sydney Base-Trend-Step calculation is available in Attachment 8.

Proposed operating expenditure – Rural Valleys

WaterNSW's proposed Rural Valleys operating expenditure forecast for the 2025 Determination period is **$437.2 million** in total over the five years based on the BTS approach.

As illustrated below, our proposed Rural Valleys operating expenditure ranges from **$83.8 million** in 2025-26 to **$91.5 million** in 2029-30 ($2024-25). The proposed average annual operating expenditure of $87.4 million is $26.3 million per annum, or 42.9% higher than the average annual amount of $61.2 million from the 2021 Determination ($2024-25).

Figure 10 – Actual, allowed and forecast operating expenditure for Rural Valleys ($millions, $2024-25)



Our proposed Base Trend Step operating expenditure forecast for the 2025 determination for the Rural Valleys in aggregate is summarised below.

Table 7 – Base-Trend-Step operating expenditure for Rural Valleys ($m, $2024-25)

	2022-23	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30
Base	**$66.0**	**$66.0**	**$66.0**	**$66.0**	**$66.0**	**$66.0**	**$330.1**
Base Adjustment	$12.2	$12.2	$12.2	$12.2	$12.2	$12.2	$61.0
Adjusted Base	**$78.2**	**$78.2**	**$78.2**	**$78.2**	**$78.2**	**$78.2**	**$391.1**
Trend		$0.8	$1.0	$1.4	$1.9	$2.0	$6.9
Step		$4.8	$5.5	$8.1	$9.5	$11.3	$39.2
Total Opex		**$83.8**	**$84.7**	**$87.6**	**$89.6**	**$91.5**	**$437.2**

More details on the Rural Valleys Base-Trend-Step calculation are available in Attachment 8.

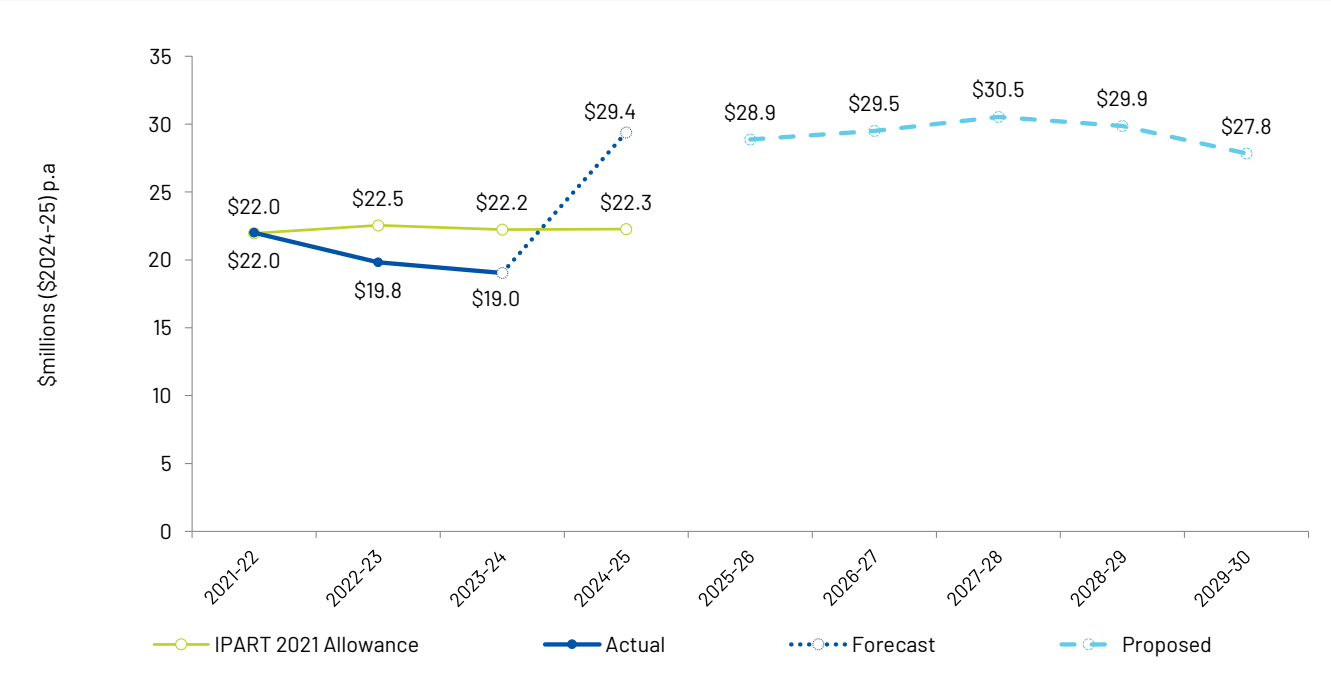
Proposed operating expenditure – WAMC (WaterNSW only)

Charges for activities provided by WaterNSW, undertaken on behalf of WAMC functions conferred on WaterNSW, are the subject of a separate joint pricing proposal prepared by DCCEEW, NRAR and WaterNSW.

We manage our costs via a whole of business approach to deliver value to customers and have included WAMC services and costs in this bulk water pricing proposal only so far as they provide visibility of how we manage our overall costs and activities to deliver our services.

Operating expenditure for WaterNSW's portion of WAMC services is proposed to be **$146.6 million** or $29.3 million on average over the five years of the 2025 Determination period as illustrated below.

Figure 11 – Actual, allowed and forecast operating expenditure for WAMC (WaterNSW only) ($m, $2024-25)



* Excluding non-urban metering or costs relating to fee for services.

The annual average of our proposed operating expenditure is 0.2% below our forecast 2024-25 operating expenditure ($29.4 million), which reflects that the increasingly higher costs facing the business that are outside of our control are offset by our efficiency savings.

WaterNSW's proposed WAMC operating expenditure forecast for the 2025 Determination period over the five years based on the BTS approach is illustrated below.

Table 8 – Base-Trend-Step operating expenditure for WAMC (WaterNSW only) ($m, $2024-25)

	2022-23	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30
Base	**$18.6**	**$18.6**	**$18.6**	**$18.6**	**$18.6**	**$18.6**	**$92.8**
Base Adjustment	$9.3	$9.3	$9.3	$9.3	$9.3	$9.3	$46.3
Adjusted Base	**$27.8**	**$27.8**	**$27.8**	**$27.8**	**$27.8**	**$27.8**	**$139.0**
Trend		$0.0	-$0.1	-$0.1	$0.4	$0.6	$0.8
Step		$1.0	$1.8	$2.8	$1.7	-$0.6	$6.8
Total Opex		**$28.9**	**$29.5**	**$30.5**	**$29.9**	**$27.8**	**$146.6**

More details on the WAMC (WaterNSW only) Base-Trend-Step calculation is available in Attachment 8.

Efficiencies in our proposal

Our pricing proposal reflects **significant efficiencies** built into our revenue forecasts.

To put downward pressure on the costs we can control, we needed to change the way we operated to become a leaner, more efficient, more agile and higher performing business – while creating a greater regional leadership presence.

Over the past two years WaterNSW has permanently removed $19.7 million of operational expenditure from the entire business. This reduction was against a baseline target set in 2022 of $21.6 million.

Of the $19.7 million of savings for the entire business, $17.8 million was specifically against core (regulated operating expenditure) activities. That is, $17.8 million is the component of the total WaterNSW efficiencies relating to our regulated Greater Sydney, Rural Valleys and WAMC activities. The remaining $1.9 million in savings is due to non-core activities (including MDBA and non-regulated activities).

Our cost transformation journey has led to **$89 million** in efficiencies over the 2025 Determination as a direct result of the savings.

We also propose a **cumulative efficiency target of 1% of total operating expenditure per annum** that rises to over 5% in 2029-30 to ensure that customers continue to receive benefit from our transformation program over the next five years and to provide a strong incentive on WaterNSW to continue to find productivity improvements. This provides an additional **$44 million** over the upcoming five-year period. The cumulative target aligns with the profile of our cost transformation program that requires up-front investment in many cases, the benefits of which are often realised over time.

Combined with base year savings, the cumulative efficiency target leads to combined **savings of $133 million** over the upcoming five-year determination period.

Our cost transformation program has enabled WaterNSW to achieve the efficient targets set out in the current determinations. Greater Sydney and Rural Valleys are both expected to experience operating expenditures lower than allowances in this determination period (excluding land tax and self-insurance costs). Our efficiency program is detailed in Attachment 9.

The overall impact of our proposed cumulative savings is that our proposed operating expenditure over the five-year determination period **is 10% less** than would otherwise have occurred in the absence of our efficiency savings.

Our efficiency savings directly align to Customer Outcome 1 – WaterNSW will maintain downward pressure on costs to support customer affordability.

Capital expenditure

WaterNSW continues to invest in renewing or replacing ageing infrastructure and in our transformation into a more customer-engaged and digitally enhanced business through our business transformation program.

Every asset is managed with the intention of maximising its performance and lifespan while also minimising cost and risk. This balance is assessed and reviewed by WaterNSW regularly.

The WaterNSW Capital Plan balances risk, cost, and performance to efficiently and prudently manage the assets in a manner consistent with the organisation's risk appetite and customer needs.

This careful management by WaterNSW directly responds to customer Outcome 1 –maintaining downward pressure on costs and Outcome 2 providing secure and reliable water delivery.

As discussed in Section 8, we have introduced an organisation-wide approach to prioritising our proposed investments. Our approach assesses proposed investments against a set of guiding principles and constraints to support investment decision making and brings transparency to the basis of choices we make as an organisation, irrespective of whether the investment is in infrastructure assets, digital projects or operating activities.

Total WaterNSW capital expenditure

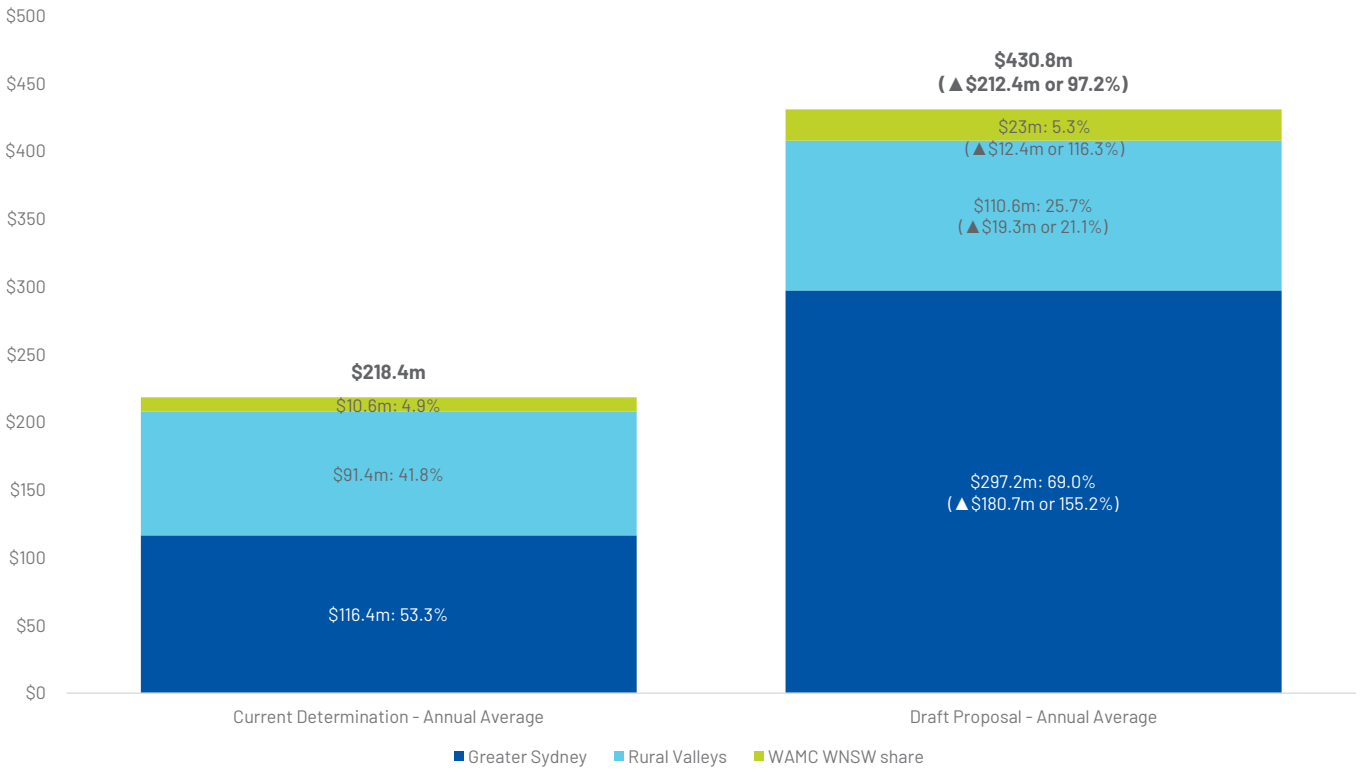
Our proposed capital expenditure programs for our Greater Sydney, Rural Valleys and WAMC (WaterNSW only) services is **$2.2 billion** ($2,153.8 million) as shown below. We are proposing a targeted investment program that is the lowest cost to deliver on our regulatory and legislative obligations and to meet our customers' requirements at an acceptable level of risk. We note that the final expenditure program may be different to (lower than) this, subject to any alternative funding arrangements or deferrals that may arise.

Table 9 – WaterNSW proposed capital expenditure compared with current determinations ($m, $2024-25)[3]

	Current Determination Annual Average	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Draft Proposal - Annual Average	Annual Average Variance %
Total Capital Expenditure	**$218.4**	**$308.9**	**$495.5**	**$533.0**	**$463.6**	**$352.8**	**$2,153.8**	**$430.8**	**97%**
Greater Sydney	$116.4	$164.3	$300.9	$370.8	$367.9	$281.9	$1,485.8	$297.2	155%
Rural Valleys	$91.4	$113.8	$164.7	$136.1	$78.9	$59.6	$553.1	$110.6	21%
WAMC (WaterNSW share)	$10.6	$30.8	$30.0	$26.0	$16.8	$11.4	$114.9	$23.0	116%

[3] Software as a Service IT has been categorised as capex for regulatory purposes. This marks a difference from Accounting Standards that changed during the current determination period to treat this expenditure as opex. WaterNSW has maintained the approach from the current determination in order to provide some pricing relief for customers in the short-term.

Figure 12 – Average annual capital expenditure – current determination and proposed ($m, $2024-25)



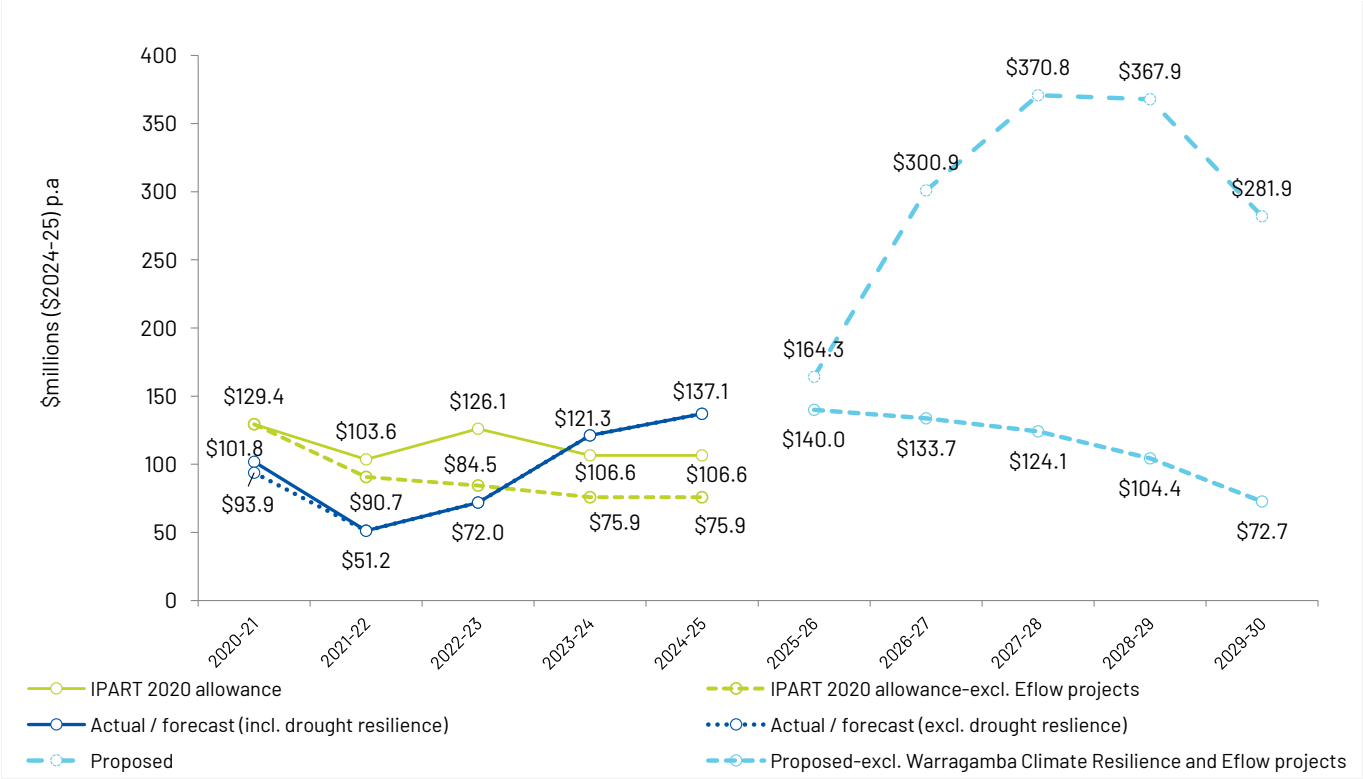
Greater Sydney capital expenditure

WaterNSW proposes capital expenditure forecast for the five-year 2025-30 Determination period of **$1.5 billion** ($1,485.8 million), for our Greater Sydney bulk water services, which is a **155% increase** from the average capital expenditure allowance determined by IPART for the 2020 Determination period.

The impact of the Warragamba Dam Resilience ($609 million) and E-flows ($302 million) major projects, however, are significant in the context of the proposed capital expenditures for Greater Sydney over the five-year determination period. These are large one-off 'policy' or regulatory driven projects which otherwise mask the underlying investment proposed to maintain our critical infrastructure, on a like-for-like basis, when compared to the current regulatory period.

That is, on a like-for-like basis, our average annual forecast capital expenditure for 2025-30 for Greater Sydney excluding these large projects is **21% higher** than the annual average of the 2020 Determination and **16% lower** than our forecast expenditures for 2024-25 ($2024-25), which represents a responsible and deliverable capital program.

Figure 13 – Actual, allowed and proposed capex for Greater Sydney ($m, $2024-25)



* Note that the IPART 2020 allowance for 2024-25 equals the 2023-24 value on the basis that the deferral year (2024-25) sets a price path, but IPART has not made a determination on the efficient expenditure allowances for that year.

Rural Valleys capital expenditure

Our proposed capital expenditure for the 2025-30 Determination period across the five years for Rural Valleys is **$553 million**, which is a **21% increase** from the average capital expenditure allowance determined by IPART for the 2021 Determination period.

The main drivers of increased capital expenditure in the Rural Valleys over five years include:

- Renewals and replacement annual average expenditure, which is proposed to increase by $26 million.
- Environmental Planning & Protection annual average expenditure, which is proposed to increase by $21 million. The main increases are for fish passages ($108.8 million over five years or $21.8 million per annum) and cold water pollution expenditure ($47 million over five years or $9.4 million per annum) for a combined total expenditure of $156 million over the five year period. These expenditures predominantly occur in Macquarie, Namoi, Gwydir, Lachlan, Murrumbidgee and Murray valleys.
- Corporate systems for ICT systems, fleet, facilities and lease assets annual average expenditure, which is proposed to increase by $4.4 million.
- Maintenance, water delivery and other operations and asset management planning annual average expenditure, which is proposed to increase by $1.3 million.
- Dam safety compliance annual average expenditure, which is proposed to decrease by $1.3 million, with Dam safety compliance on pre-1997 capital projects proposed to decrease from $2 million to $0.
- Drought projects annual average expenditure, which is proposed to decrease by $29.5 million,

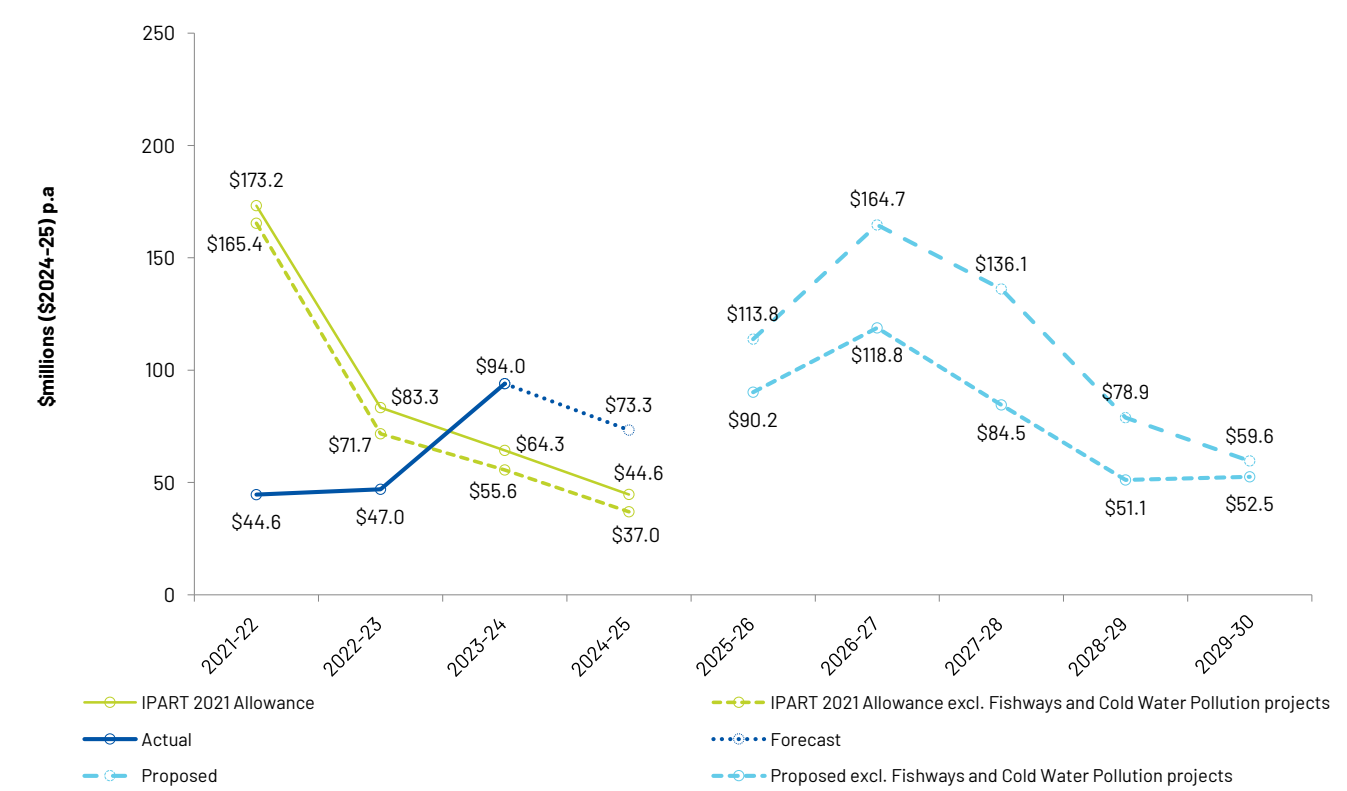
with only $2 million included for the Chaffey Pipeline Environmental Impact Study included in the proposal.

- Implementing the new Operating Licence obligations, with an associated annual average capital expenditure of $1.7 million per year.

Actual/forecast capital expenditure, the IPART-approved amounts for the 2021 Rural Valleys determination and our proposed capital expenditure for the 2025-30 determination period are illustrated in Figure 14 below.

Also illustrated below is the impact of the Fishways and Cold Water Pollution projects, as these are significant in the context of the proposed capital expenditures for the Rural Valleys. These are large one-off policy or regulatory driven projects which otherwise mask the underlying investment proposed to maintain our critical infrastructure, on a like-for-like basis when compared to the current regulatory period.

Figure 14 – Allowed, actual and proposed capital expenditure ($m, $2024-25) – Rural Valleys



That is, on a like-for-like basis (excluding the impact of the Fishways and Cold Water Pollution projects), our average annual forecast capital expenditure for 2025-30 for the Rural Valleys as shown above is **4% lower** than the annual average of the 2021 Determination when fishways are excluded and **8% higher** than our forecast expenditures for 2024-25 ($2024-25).

WAMC (WaterNSW only) capital expenditure

Charges for activities provided by WaterNSW, undertaken on behalf of WAMC functions conferred on WaterNSW, are the subject of a separate joint pricing proposal prepared by DCCEEW, NRAR and WaterNSW.

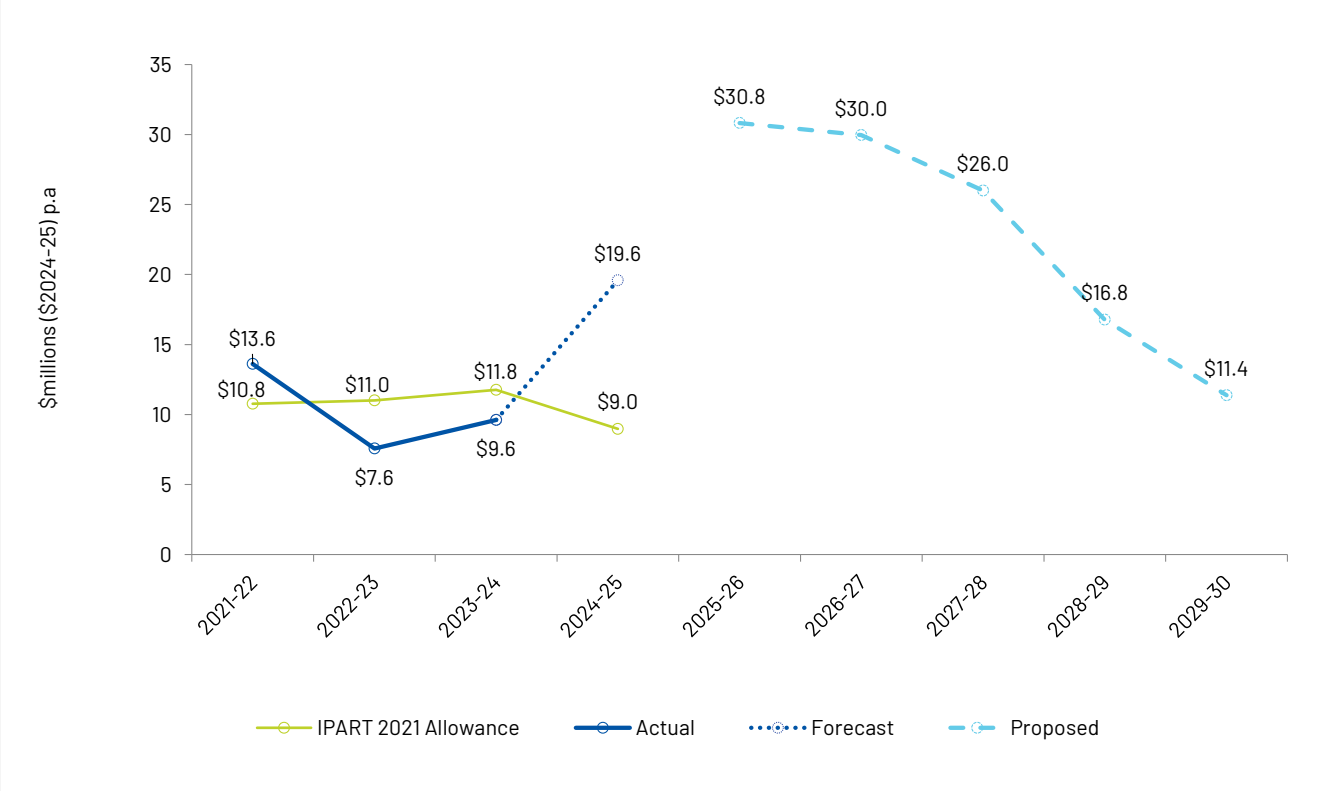
We manage our costs via a 'whole of business' approach to deliver value to customers and have included WAMC services and costs in this bulk water pricing proposal only so far as they provide visibility of how we manage our overall costs and activities to deliver our services.

Capital expenditures for WaterNSW's WAMC services are included in the joint DCCEEW / NRAR / WaterNSW WAMC proposal and are provided here for completeness.

Proposed capital expenditure for WaterNSW's portion of WAMC services is **$114.9 million** ($2024-25) over the five-year determination period as illustrated below, which includes among other things the Technology Roadmap capital expenditure for the three agencies. The figures presented exclude non-urban metering costs and costs relating to fee for service activities.

Total proposed capital expenditure for WAMC over the determination period consists of the $114.9 million WaterNSW expenditure as identified above, plus $5.1 million of surface water capital expenditure for DCCEEW, resulting in **total WAMC capital expenditure of $120.1 million** over the five years (see joint WAMC proposal for more information).

Figure 15 – Allowed, actual and proposed capital expenditure ($m, $2024-25) – WAMC (WaterNSW)



* Excludes non-urban metering and costs relating to fee for service activities

The main components of the WaterNSW capital expenditure program to be recovered through the WAMC proposal include the costs of the Technology Roadmap initiatives ($56.8 million), surface water monitoring ($20.7 million), ground water monitoring ($20.9 million), ICT renewals and digital continuous improvements ($11.4 million) and lease capex, facility management and other capex ($5.1 million).

Delivery is challenging but we are focused and dedicated to the task

Our approach to demonstrating the third 'C' in IPART's 3Cs framework – credibility – includes improving our ability to deliver our capital program. Since the last round of IPART determinations in 2020 and 2021, several strategic improvements have been embedded into WaterNSW's capital program delivery process across three areas of focus:

1. **Program governance,** including improvements to procurement processes.
2. **Program delivery,** including:
    - Engagement of an engineering design partner and two construction partners to improve delivery on our asset renewal and replacement (ARR) program and the establishment of our operations professional services panel.
    - Improvements to Asset Class Strategies and Asset Management Plans, drawing on the input of two expert engineering firms to enable WaterNSW to more effectively and proactively manage its assets and associated risks into the future.
    - Dedicated teams, which have been involved in condition assessment, option analysis, design development and cost estimation of candidate projects to enable informed decisions regarding prudent and efficient capital investment and delivery.
    - Introduction of agile digital delivery squads with a product centric approach, strengthening our commitment to DevOps. Internal employees take a larger and leading role in product development with additional capacity added for specialist technical skills on advanced technologies.
    - Improved integration between digital delivery and business ownership producing a better fusion of business technologists who deeply understand work on the ground and dedicated digital experts who deeply understand the configuration of the system.
3. **Program scheduling,** a master schedule of all potential infrastructure capital works was developed to inform decisions about a realistic volume of work that could be designed and constructed over the 2025 Determination period (FY26-30) and WaterNSW resources required to manage the program. Informed decisions were taken to defer projects of low priority or high risk of delay, or where potential constraints were identified with WaterNSW resources or market resources to manage and execute specific works.

Our focus on improving our project governance, delivery and scheduling should provide confidence to customers and IPART of our ability and commitment to deliver our proposed capital program.

Form of control and tariff structures

In order to better manage the impact of volume volatility on customer prices and our ability to recover our efficient costs, we engaged with our Customer Advisory Group member, during our consultation process, to assess the performance of the current price cap form of control. While our bulk water tariffs have a variable component based on water usage, we do not sell water. Our costs do not vary materially with water usage, including during fire, flood or drought.

We identified a fundamental gap between our highly fixed cost structure (where around 95% of our costs are fixed and do not vary with water usage) and our highly variable tariff structure (where in many valleys 60% of our tariffs are variable based on water usage), which customers largely accepted. We identified two broad approaches to address the gap which is leading to volume volatility both for customers and WaterNSW:

1. Price cap control, with a higher proportion of fixed prices.

2. Revenue cap, where the current proportion of fixed charges could be maintained combined with targeted increases to the proportion of fixed prices for certain customers and valleys.

As outlined in our Final Customer and Community Engagement Summary (Appendix 2), in addition to the feedback provided through the Customer Advisory Group discussions, customers were asked to provide their views on the form of control (for example, a revenue cap or a price cap) and tariff structures in a survey of future pricing. This was provided to all 78 customer groups represented in the CAGs with 29 responses received in total over eight valleys. Demonstrating their comprehension of the information provided, a majority (66%) of the CAG participants agreed they could see there is a problem with how WaterNSW prices are currently set as a basis for the next five years, with 24% unsure and 10% could not see that there was a problem with how prices are currently set.

Ultimately **86% of respondents were in favour of adopting a revenue cap with a side constraint** as their preferred tariff / form of control structure (62% maintaining existing fixed proportion of tariffs and 24% supporting increased fixed charges), compared with **only 14% of respondents in favour of a price cap and increased fixed charges**.

On balance, and with general support from our customers as to their preferred option, WaterNSW proposes introducing a revenue cap as the form of control for the 2025-30 Determinations for Greater Sydney and Rural Valley bulk water services. Our proposed **revenue cap** incorporates a side constraint to manage short-term pricing volatility for customers. The design features, assessment of the risk sharing, and detailed customer and community feedback associated with a revenue cap is discussed in Section 7 and Attachment 13.

WaterNSW also proposes to move the **Licensed Environmental Water (LEW) holders to a 100% fixed tariff**. This is on the basis that high use customers should contribute to a fair proportion of costs and that the current system penalises LEW holders for using more water and results in unstable long-term bills.

The benefits of moving LEW holders to a fully fixed charge include greater cost reflectivity, more stable and predictable prices, lower long-term bill impacts for the environment, fairer and more equitable across the customer base and sends a clear price signal on the cost of services. The approach also lines up with more closely with their budgeting process and provides greater certainty of costs for this purpose. The approach to charging for LEW holders is discussed in Attachment 5.

Greater Sydney

We propose a revenue cap with a 2% side constraint as the form of control for Sydney Water. Subject to IPART approving a revenue cap, our proposed tariff design for Greater Sydney includes the following features:

- Maintains the current fixed proportion of tariffs in Greater Sydney at 80%.
- Removes the current 'dynamic' pricing arrangements as the variable tariff adjustments in times of low water use are addressed through the annual revenue cap operation.
- Maintains the current Sydney Desalination Plant charging mechanism but corrects the current anomaly in the determination that only permits adjustment for 'mandatory' supply of water from SDP to Sydney Water (that is, only if dam levels are below 60%).
- Maintains the current Shoalhaven transfer scheme charging methodology with an update to the pass-through cost of energy to reflect current electricity market factors.
- Applies an equivalent energy cost pass-through charging methodology to recover the benchmark efficient energy costs of the Warragamba Deep Water Pump Station.

Rural Valleys

We engaged extensively with our customers on the potential move to a revenue cap as the form of control. Through our CAG engagement (see Appendix 2), our customers were broadly supportive of a mechanism that allows WaterNSW to recover its efficient costs as set by IPART. Some customers also told us that they had some reservations with increasing the fixed component of our tariffs to 80% or above, particularly in times of low water use, which factored heavily into our support of a revenue cap where we could maintain the current fixed proportion of charges in most valleys.

The alternative of higher fixed charges under a price cap received little support from customers (14% of surveyed customers supported this option as noted above) and would only be considered by WaterNSW for this review in response to the draft determination if IPART does not introduce a revenue cap.

WaterNSW proposes a revenue cap with a 5% (plus CPI) pricing side constraint to apply to the following nine rural valleys: Border, Gwydir, Hunter, Namoi, Lachlan, Peel, Macquarie, Murray and Murrumbidgee. Our proposal for a revenue cap includes keeping the existing fixed proportion of tariffs at current levels for all valleys except for Lachlan, which is supportive of increasing the fixed proportion to 80%.

Our cost reflective base case – revenues and prices

To meet the requirements in the 3Cs Handbook regarding provision of revenue and price information, WaterNSW has provided our Cost Reflective Base Case in this submission. The Cost Reflective Base Case pricing outcome – adopting the existing cost shares and traditional approach to a pricing proposal – is the lowest sustainable cost to meet our legislative and regulatory obligations and customer preferences and represents our complying proposal.

Importantly, the Cost Reflective Base Case includes a challenging efficiency target that rises to 5% of total operating expenditure by 2029-30, on top of the almost $18 million of efficiencies removed from our base year costs ($133 million in total efficiencies).

That is, the Cost Reflective Base Case is WaterNSW's best customer value proposition, consistent with our customer engagement strategy, that delivers services at the lowest sustainable cost, consistent with our cost efficiency strategy.

Across our Greater Sydney, Rural Valleys and WAMC (WaterNSW) services, WaterNSW's Cost Reflective Base Case revenue requirement is $2.9 billion ($2,950.0 million) over the five-year determination period. This represents a 44% increase in the average annual revenue requirement from the current IPART 2020 and 2021 Determinations as illustrated in Table 10 below.

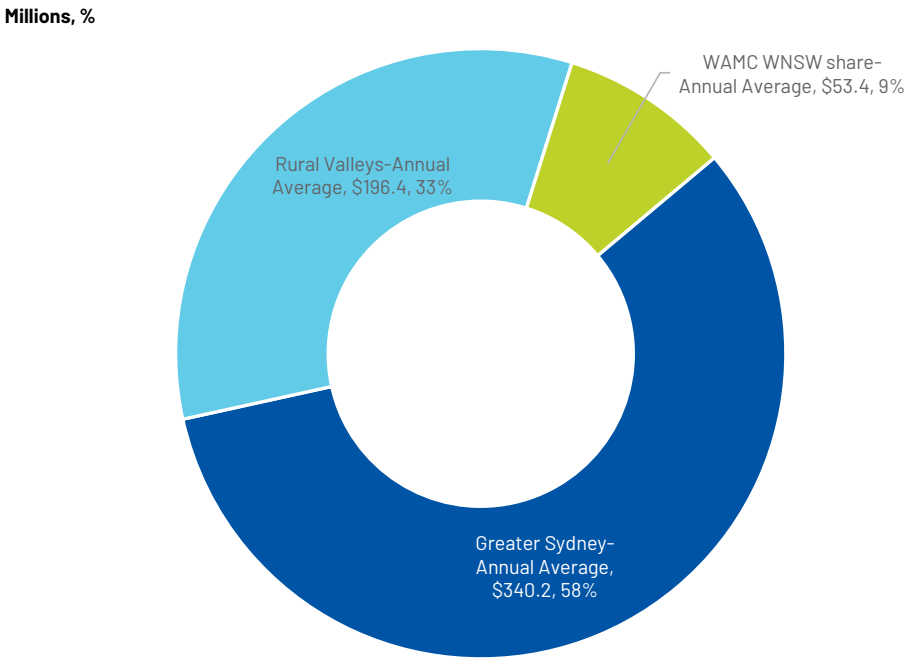
Our capital expenditures contribute to a closing regulatory asset base (RAB) across the three determinations of $5.1 billion ($5,113.6 million) in 2029-30 ($2024-25) (an increase of 22.5% from the current determination) as illustrated below.

Table 10 – WaterNSW Forecast annual Revenue Requirement and RAB by determination ($2024-25)

Regulatory Indicators	Current Determination Annual Average	Greater Sydney Annual Average	Rural Valleys Annual Average	WAMC (WNSW) Annual Average	Draft proposals Annual Average	Total FY26-30	Annual Average Variance %
Total Revenue Requirement	$409.1	340.2	$196.4	$53.4	$590.0	**$2,950.0**	44.2%
Regulated Asset Base (RAB) @ Period end	$4,188.9	$3,371.4	$1,676.2	$85.5	$5,113.6		22.5%

As illustrated in Figure 16 below, Greater Sydney represents 58% of our total proposed annual revenue requirement of $590 million for the 2025-30 Determinations, Rural Valleys represents 33% and WAMC represents 9% of our proposed revenue requirement.

Figure 16 – WaterNSW Annual Revenue Requirement by determination and in total ($2024-25)



Greater Sydney

Sydney Water

WaterNSW's annual Cost Reflective Base Case revenue requirement for Sydney Water over the 2025-30 determination period is proposed to increase from $254.4 million in 2025-26 to $439.5 million in 2029-30 ($2024-25). A higher proposed revenue requirement combined with lower forecast water volumes is leading to an annualised bill increase of 14% per annum (excluding inflation) from current prices over the 2025 Determination period.

In the 2020 Determination, IPART stated that:

The prices that Water NSW charges Sydney Water will have a small impact on the bills of Sydney Water's customers. Under [IPART's] prices, the cost of Sydney Water's bulk water purchases from Water NSW account for about 7% of Sydney Water's total revenue requirement (emphasis IPART's). [4]

WaterNSW expects that its contribution to Sydney Water's total revenue requirement will remain at around the same proportion over the 2025 determination period, based on our understanding of Sydney Water's proposed revenue requirement.

Our proposed prices are therefore expected to result in **less than a $1 per week increase** (namely, 80 cents per week or $42 on average per annum) to a Sydney Water residential customer's bill in 2025-26 to provide bulk water services that meet regulatory and legislative obligations and community expectations at lowest sustainable cost.[5]

Council customers

Individual charges and bill impacts for Council customers based on our Cost Reflective Base Case are provided in Attachment 26. Revenues from Council customers are forecast to see a 13% annualised increase from 2024-25.

Rural Valleys

Subject to IPART approving a revenue cap (the primary proposed mechanism to address revenue risk), our proposed tariff structure keeps the fixed proportion at the current proportion in all valleys except for the following, to take effect from 1 July 2025:

- Lachlan Valley to move to 80% fixed tariffs as supported through our engagement process.
- Licensed Environmental Water (LEW) holders to move to a 100% fixed tariff.

Our Cost Reflective Base Case results in a weighted average price increase across the Rural Valleys of **22% per annum** that ranges from 17% per annum in Hunter Valley to 37% per annum in Peel Valley. These increases are shown excluding inflation.

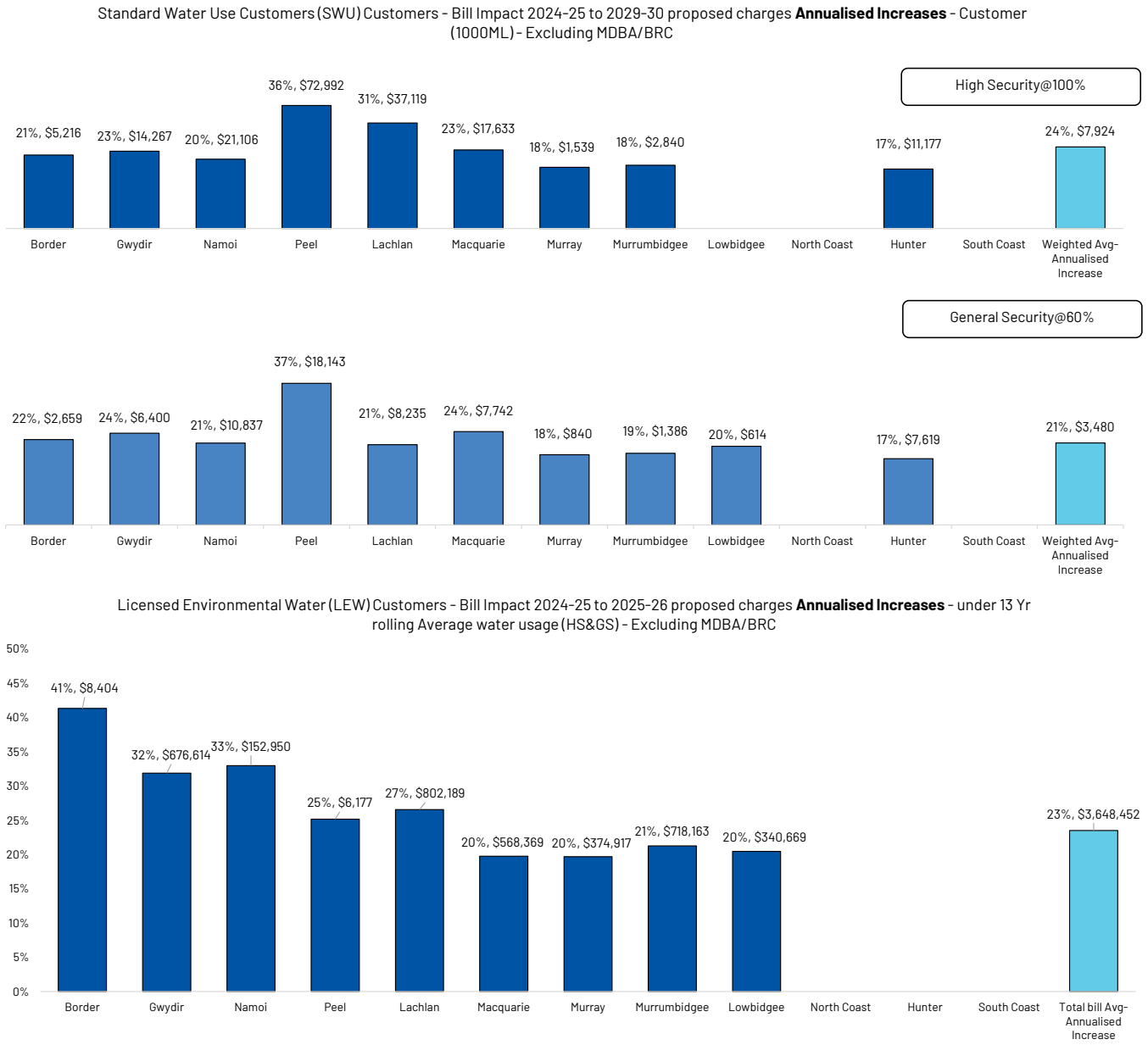
- On average, **high security** customer bills are forecast to increase by 24% per annum (plus inflation) (with a total increase of $7,924 per annum on average, assuming 1,000 ML of entitlements held and 100% usage), with bill impacts ranging from 17% per annum for the Hunter Valley to 36% per annum in Peel Valley.
- **General security** customer bills are forecast to increase by 21% per annum (plus inflation), (with a total increase of $3,480 per annum on average, assuming 1,000 ML of entitlements held and 60% usage), with bill impacts ranging from 17% per annum for the Hunter Valley to 37% per annum in Peel Valley.
- Fee for Service charges (such as metering charges, trade processing charge and other ancillary charges) are not included in these charges.

Our tariff design proposal is a responsible and balanced approach to managing volume volatility that targets the tariff arrangements for Licensed Environmental Water holders, while also incorporating our customers' general preference to maintain the current proportion of fixed charges in recognition of the financial impacts in times of low water availability associated with higher fixed charges.

[4] IPART 2020 Greater Sydney Determination, page 87.

[5] Assumes WaterNSW's costs represent approximately 8% of Sydney Water's total costs as stated by IPART in the 2020 Determination. The actual percentage may change dependent on Sydney Water's notional revenue requirement which will only be ascertainable at the conclusion of IPART's concurrent review process. The calculation is based on the average bill of an individually metered residential property.

Figure 17 – High Security and General Security customer bill impact annual increase from 2024-25, assuming 100% and 60% water usage (%)



More information is provided on price and bill impacts in Attachment 26.

Fish River

The Cost Reflective Base Case results in a weighted average price increase across Fish River of approximately **9% per annum** (plus inflation). Proposed aggregated bulk water revenues for Fish River customers are provided in Section 14 and in Attachment 26.

Our proposed form of control, tariff structures and tariffs have been prepared in direct response to Customer Outcome 6 - WaterNSW will be open and transparent (about customer charges and WaterNSW expenditure).

Alternative scenarios to assist IPART in assessing affordability for rural customers

We appreciate that IPART, after applying its building block framework, is required to provide sufficient funding to WaterNSW to ensure we remain financially sustainable to meet our regulatory and legislative obligations and customer requirements, while also having regard to customer affordability.

The role of the alternative scenarios

The three alternative scenarios recognise that, in a high inflationary and cost of living environment, all stakeholders may need to absorb some level of cost or price adjustment, without a significant increase in borrowings for WaterNSW, which would create risk to our financial sustainability. These scenarios present the basis upon which a 'balanced' outcome may be found.

WaterNSW recognises the challenge that the current economic and fiscal environment presents in determining fair and affordable charges for customers, within the current economic regulatory framework.

This is why we recommend that IPART, having strong regard for our customers' feedback and submissions on this proposal, engage jointly with WaterNSW and the NSW Government in an effort to collaboratively work towards finding the right balance when setting future rural bulk water charges.

For the Rural Valleys, we have provided **three alternative scenarios** in addition to our complying Cost Reflective Base Case to assist IPART when it seeks to address both of these potentially competing objectives. [6]

Balancing these potentially competing objectives will require IPART to assess:

- What are the lowest sustainable costs and what is financially sustainable for WaterNSW.
- What our customers can afford (recognising the complexity in distinguishing homogenous customer segments amongst our customers, or within valleys).
- What is appropriate for the NSW Government (as both our Shareholder and a customer).

The three alternative scenarios reflect reductions to our Cost Reflective Base Case and may, after further negotiation with IPART and the NSW Government, achieve a more acceptable balance between stakeholders. Each scenario **assumes a 15% per annum (plus CPI) price ceiling** plus other adjustments as discussed below. The three alternative scenarios are discussed in Annexure B and summarised below.

[6] Section 15 of Part 3, Division 5 of the Independent Pricing and Regulatory Tribunal Act 1992 sets out the matters to be considered by the Tribunal in making determinations and recommendations under this Act. Section 15 (k) refers to the Tribunal having regard to the social impact of the determinations and recommendations.

Alternative scenario 1 – Extend asset lives and reduce user shares

- **A price ceiling of 15% per annum** (plus inflation) to take account of affordability.
- **ICT asset lives extended from 7 to 10 years** to better reflect the expected life of our digital investments and thereby reducing short-term pricing impacts for customers.
- **Reducing the user share for the Environmental protection and planning and Dam Safety cost share categories for customers to 50% (from 80%)** to reflect what we heard regarding the fairness and equity of customers funding certain policy-driven environmental investments plus, other minor adjustments for dam flood mitigation in two valleys.
- This results in a **residual funding shortfall of $60 million** on the user share revenue requirement over five years compared to the Cost Reflective Base Case to manage the financial risk to WaterNSW of not receiving the required funding to meet customer statutory obligations.

Alternative scenario 2 – Extend asset lives and remove major policy projects

Alternative scenario 1, plus:

- **Remove fish passages and Cold Water Pollution projects** – this takes into account the impact on capitalised overheads should the NSW Government decide not to proceed.
- This results in **a residual funding shortfall of $53.5 million** on the user share revenue requirement over five years compared to the Cost Reflective Base Case to manage the financial risk to WaterNSW of not receiving the required funding to meet customer statutory obligations. This is $6.6 million less over five years than Alternative scenario 1 and might be attractive to the NSW Government as it would result in lower debt levels.

Alternative scenario 3 – Regional pricing

This alternative scenario builds on Alternative Scenario 1 (including a 15% per annum price ceiling plus inflation) and applies a reform initiative that would see the pricing of rural bulk water services transition from valley-based to regional-based charging.

How would regional pricing work?

Under a regional pricing framework, each valley would pay a legacy charge for the capital expenditure it has incurred up to 30 June 2025. This legacy charge would continue until the existing assets are fully depreciated. From 1 July 2025, charging for capital expenditure and operating expenditure would shift to a regional basis – that is, valleys would receive regionally-based charges rather than valley-based charges. Two regions are suggested: a Northern region comprising seven valleys (Border, Gwydir, Namoi, Peel, Hunter, Macquarie and North Coast) and a Southern region comprising five valleys (Lachlan, Murray-Lower Darling, Murrumbidgee and South Coast).

Regional pricing is consistent with the IPART stated aim to allow the regulated utility to reprioritise expenditure within the allowance. It provides several benefits compared to valley-based pricing, including:

- minimising price shocks within and between valleys in the future as expenditures are allocated across a wider customer base
- providing WaterNSW with flexibility to operate across the region to deliver its required investment programs while still focusing on the priorities of each valley
- providing opportunities for improved efficiency as the regionally based framework aligns to WaterNSW's regional structure for its maintenance and operational activities
- achieving other administrative improvements,

including more straightforward cost allocation across valleys.

The proposed charging arrangements for this alternative scenario are discussed in Annexure B and summarised below.

Alternative scenario 1, plus:

- Implement a form of **regional pricing in the valleys** conditional on a price ceiling (15% per annum plus CPI) in place to minimise the impact on valleys that may otherwise be initially financially disadvantaged in the short term. The calculation does not reflect the cost savings and other benefits that may accrue (for example, reduced pricing volatility between valleys) from the move to regional pricing.
- The two regional pricing options we considered that represent the upper and lower bounds for funding any revenue shortfall are:
    - **Alternative scenario 3a: Residual funding shortfall of $154 million** on the user share revenue requirement if all **windfall gains for some valleys over the first five years are passed through as lower prices in those valleys**. This is $94 million higher over five years than Alternative Scenario 1. This reflects that some valleys would pay less under this scenario as we transition each valley to new regional prices, while no valley would pay more than the 15% per annum price ceiling, thereby passing the additional funding shortfall to WaterNSW and or Government.
    - **Alternative scenario 3b: A residual funding shortfall of $82 million if a transitional charge is introduced** for Namoi, Peel, Hunter and Lachlan valleys (namely, the beneficiaries of regional pricing over the first five years whereby prices are below the 15% per annum ceiling). Under this option, a transitional charge is introduced to **defer all of the benefits of moving to regional pricing to subsequent regulatory periods** (in other words, we have removed all of the benefit in the first five years by resetting prices under this option to ensure customers are no worse off (but are no better off), than the scenario where prices are capped at 15% per annum.

That is, approximately $70 million of the higher residual funding gap associated with the move to regional pricing could be funded through the setting of a transitional charge that increases charges up to 15% per annum, rather than passing the full benefit to customers through lower pricing over the first five years.

The above two options (3a for the full pass-through of benefits, 3b if the full benefit is deferred to subsequent periods) for this alternative scenario for regional pricing are discussed in Annexure B.

Ability of our customers to absorb bulk water price increases

Off the back of customer feedback and concern about affordability, and to assist IPART in assessing the impact of our proposed costs and prices on customers and the role that the alternative scenarios might play in addressing affordability for customers, WaterNSW engaged Deloitte Access Economics to conduct a gross margin analysis of the NSW farming sector. This provides a contemporary and detailed look at the financial position of these customers and their potential exposure to higher water prices. The gross margin analysis report is provided in Attachment 30 and discussed in more detail in Annexure B.

The findings suggest that, while overall agricultural profits in NSW have been high in recent years, suggesting some capacity to pay for proposed bulk water increases at an aggregate level, historically profits have been volatile and, even within a specific commodity group and in a 'bad' year, relatively moderate bulk water prices could have a substantial impact on margins in certain market segments.

Marginal operations are more likely to encounter financial difficulty as the average gross margin falls, but even relatively healthy averages can include individual cases where farms are no longer viable.

With interest costs increasing in recent years due to higher interest rates, and other things being equal, gross margins would need to increase to maintain overall profitability.

The gross margin analysis, and in particular the impact of large price increases on more vulnerable customers, suggests that some form of price capping arrangement, such as that contemplated in the alternative scenarios presented above, could form part of IPART's considerations for this review. Customer feedback on this topic can be found in Appendix 2.

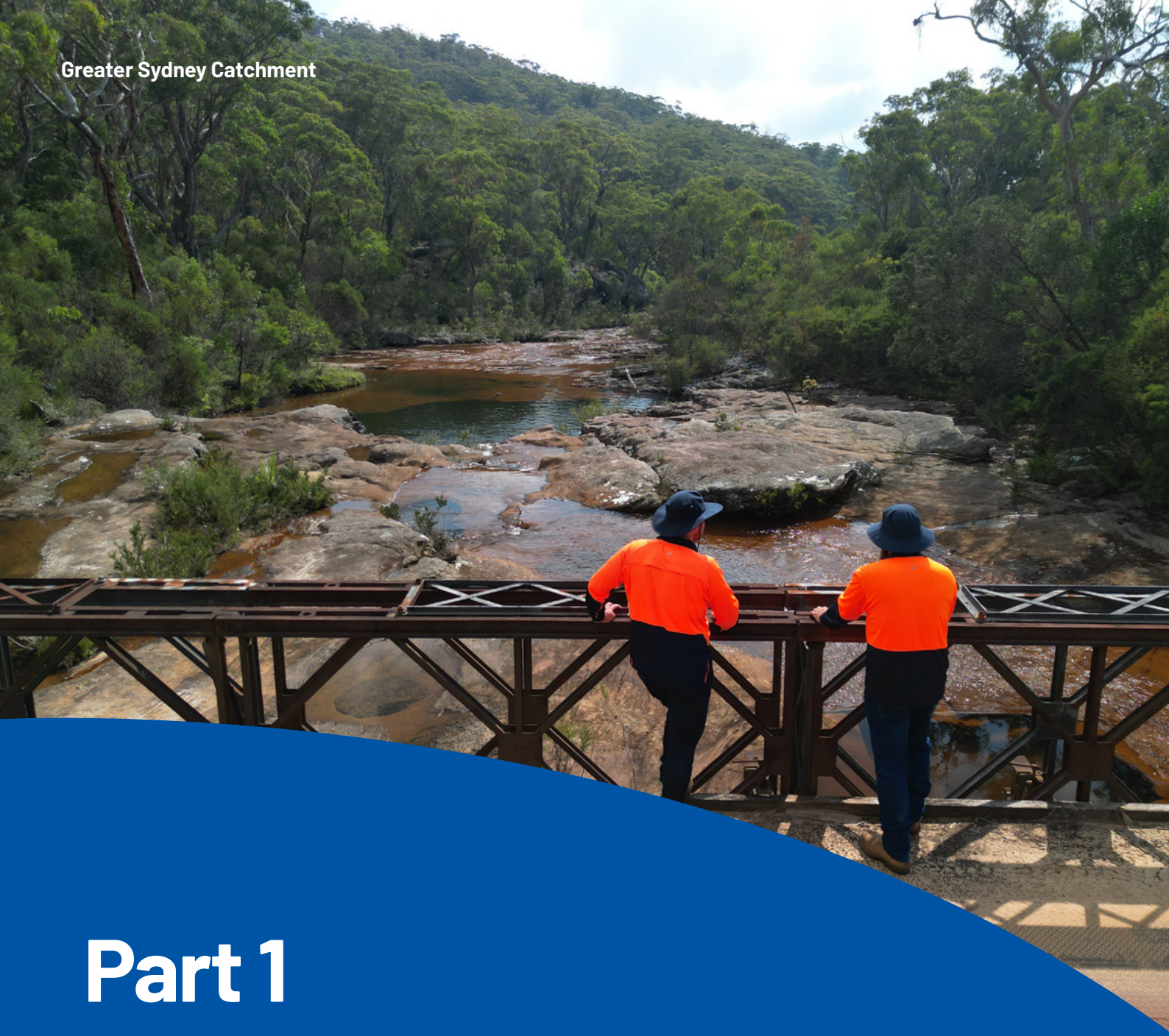
Disclosure statement

Notwithstanding the due attention and care in developing the input data, modelling and written narrative for this pricing proposal, there remains a residual risk for misstatements or errors. WaterNSW undertook continuing internal review and challenge testing of all of the material provided as well as external Quality Assurance review.

There was one item where our processes identified a matter to be updated, but the available timing did not allow for matters to be full reflected throughout the proposal and all supporting material.

In early September, WaterNSW identified the need for an adjustment to be made to the treatment of IT Software as a Service (SaaS) expenditure in 2023-24 to reclassify expenditure from operating to capital. While there is no impact arising from the reclassification on the forecast total expenditure (capital expenditure plus operating expenditure) over the next five years, there is a minor (immaterial) increase to the annual revenue requirement.

We have updated the relevant tables, charts and narrative in our operating expenditure section (Section 9) and our capital expenditure section (Section 10), but there was insufficient time to update our proposed revenues and prices due to the vast quantity of affected tables and figures and to subject the updates to the required Quality Assurance process. This matter is outlined in more detail in the disclosure statement provided as Attachment 14.



Part 1

Our commitment to delivering outcomes for customers

WaterNSW

PART 1

Our commitment to delivering outcomes for customers

Part 1 of our 2025-30 Pricing Proposal explains the outcomes we have agreed with our customers, which we are focused on delivering. This section covers the following:

- WaterNSW at a glance (**Who we are**)
- How we have engaged with our customers and other stakeholders to establish the outcomes we will deliver in the 2025-30 period, and associated investment levels (**Engagement**)
- The outcomes, as guided by customers, that we will deliver over the 2025-30 period and the specific outputs and deliverables we will measure (**Outcomes**).

1. WaterNSW at a glance

WaterNSW is the utility responsible for operating NSW's major water supply dams and rivers, capturing and storing water, and then supplying it ready for distribution – for the environment, agriculture, industry and the community – to help them grow and thrive. We also supply treated drinking water to some customers in NSW.

WaterNSW is a State-Owned Corporation established under the *State Water Corporation Act 2004 (NSW)* and operates under the *WaterNSW Act 2014 (NSW)*. The *Water NSW Act 2014 (NSW)* sets out our principal objectives, functions and areas of operation.

WaterNSW operates under an Operating Licence issued by the NSW Water Minister that is reviewed and audited regularly by IPART. [7] The legislative environment that we operate in is governed by a number of water legislations and their associated regulations administered by Commonwealth and State governments. This regulatory framework is designed to ensure that water is managed and shared in a responsible and equitable way, while also protecting water quality and the environment.

We own and operate 41 large dams across NSW, as well as hundreds of weirs and regulators and a small number of pipelines. We supply and deliver water through our infrastructure and the state's river systems to our customers, including Sydney Water Corporation, farmers, irrigators, environmental water managers and local water utilities.

We own and operate the largest surface and groundwater monitoring network in the southern hemisphere and build, maintain and operate essential infrastructure. We also supply non-monopoly services such as leasing some of our facilities and providing certain commercial hydrometrics services.

[7] WaterNSW also carries out delegated functions (contained in Schedule A of the WaterNSW Operating Licence 2017-2022) of the Water Administration Ministerial Corporation ("WAMC") in relation to water delivery, customer transactional dealings, in-field services and resource management for groundwater, regulated and non-regulated surface water.

Our purpose

Water, delivered when and where it matters.

Our vision

To support the resilience of NSW communities
through our leadership in delivering water services,
for generations to come.

Our core functions are summarised below:

Source water protection

Protect the Greater Sydney drinking water catchment to ensure safe water is supplied to Sydney Water, local councils and other distributors for treatment and distribution to their customers.

Bulk water supply

Supply water from storage dams to customers in the Greater Sydney drinking water catchment and in NSW's regulated rivers.

System operator

Efficient management of the state's surface and groundwater resources to maximise reliability for users through the operation of the state's river systems and bulk water supply systems, in collaboration with the Murray-Darling Basin Authority which directs operations of the River Murray system and the Border Rivers Commission (crossing the Queensland border). To support this function, we own, operate and maintain Australia's largest hydrometrics network.

Infrastructure planning, delivery and operation

Meet customer-defined levels of service consistent with NSW Government policy and relevant customer supply agreements, which include priorities to increase the security and reliability of water supplies to customers and the communities of NSW.

Customer water transaction and information services

Provide efficient and timely services to customers for water licensing and approvals, water trades and billing, and to meet their water resource information needs for surface and groundwater quantity and quality.

Strategy and priorities

WaterNSW's strategy and priorities have been informed by, and reflect, our engagement with customers and stakeholders. We have based our strategic priorities on what customers have told us through our ongoing engagement process, and to address our various regulatory and legislative obligations at the most efficient cost. Our pricing proposal is a measured, appropriate and least sustainable cost approach for meeting these requirements and is aligned to our longer-term strategy and vision.

Our corporate strategy is discussed in Attachment 23. To meet the aspirations articulated in both our purpose and vision statements, the strategy includes five priority areas, all of which are critical to meeting those long-term goals. These strategic priorities outline the key outcomes for the business, our customers, our stakeholders, and the broader community are outlined below:

Figure 18 – Key elements of our Corporate Strategy

The pricing proposal development process and the insights gained from our engagement and consultation processes play a key role in the WaterNSW strategic planning process. We are feeding back these customer insights into our long-term and operational plans and have used the learnings to help shape our future corporate strategies and engagement plans.

Delivering operational excellence

The objective of this strategic initiative is to ensure WaterNSW could provide safe, reliable, and affordable water services through technical and operational excellence.

To achieve this, WaterNSW is focused on improving our core operations. That way we can be a simpler, more efficient, and responsive business. Plus, we can better service the needs of our customers and stakeholders. Specifically, this includes improvements in:

- safety – for our employees, contractors, members of the community and suppliers
- costs – to ensure we are leaner and more efficient
- innovation – to provide thought leadership and better practices
- holistic whole of system asset management – to benefit our customers and communities
- digital solutions – to streamline, automate and digitise our operations where prudent, to uplift our capabilities, enable efficiencies and to respond faster to the needs of our customers and stakeholders.

Developing our people and capabilities

The objective of this strategic initiative is for WaterNSW to have a diverse, high performing workforce responsive to customer and community needs. To achieve this outcome WaterNSW will ensure we foster the right culture. This means the right people with the right capabilities at the right time. Specifically, we will:

- focus on creating a diverse, high performing workforce that will support the social obligations of our ESG strategy
- enhance existing and build new capabilities to prepare us for the future
- build a collaborate culture that delivers continuous improvement across all areas of our business
- put customers and communities at the heart of our decision making
- embed new ways of working to create a great place to work.

Respected by the customers and communities we serve

Through transparency and community presence this strategic initiative will ensure WaterNSW will be trusted to support social, cultural and economic prosperity of customers and the community.

To meet this objective WaterNSW will consult and improve collective understanding of our services with community leaders and all other stakeholders through:

- proactive, two-way customer and community engagement
- community education on water literacy
- the delivery of our Reconciliation Action Plan
- better customer service delivery and responsiveness
- understanding of the value of water for our customers
- being easy to communicate and do business with us
- fair and transparent price.

Working together in partnership

WaterNSW is committed to working in partnership with stakeholders to manage sustainable, secure, and healthy waterways. We will do this by working with the NSW Government and other water sector agencies to achieve and sustain regional prosperity, improve water resilience, and water quality.

We will evolve our strategic partnerships with suppliers to deliver greater value to customers, communities, and government, and enter strategic partnerships with other entities to drive forward our strategic priorities.

Building a sustainable future

This strategic initiative is for WaterNSW to create a more resilient water system to enable thriving communities while reducing our environmental footprint. We will meet this through:

- adopting a comprehensive Environmental, Social and Governance strategy that addresses all aspects of the WaterNSW business and aligns to the 17 United Nations Sustainable Development Goals
- supporting the creation and management of healthy ecosystems
- collaborating with our stakeholders to improve water quantity and quality outcomes for communities and our customers
- developing climate resilient water plans
- reducing waste and increasing reuse
- ensuring business, asset management and investment plans all consider climate change and resilience.

Attachment 15 provides a high-level overview on what climate variability and adaptation means in the context of bulk water supply in NSW and to the service areas of Greater Sydney and Rural Valleys.

WaterNSW has committed to a comprehensive Environment Sustainability and Governance (ESG) Program, which ensures our assets and operations are resilient to climate change, as a key pillar.

The key objective of our climate change work is to understand and build resilience to the growing impacts of climate change across WaterNSW's operations and take appropriate actions to minimise impacts on operations, customers, and communities.

WaterNSW's climate change risk assessment and adaptation framework will enable us to understand the changing frequency and severity of climate hazards and prioritise climate risk management and adaptation efforts across all assets and activities to mitigate climate change impacts.

Under IPART's 3Cs framework, the consideration and monitoring of climate change impacts and risks should be considered in long-term investment plans. Some of the key actions suggested in the framework that WaterNSW could take to meet this requirement include the development of adaptation and resilience strategies and undertaking climate change risk and impact assessments on assets, asset management and operations and to identify climate risk prevention measures.

WaterNSW is meeting this requirement through the ongoing development of a climate change risk assessment and adaptation framework (the 'framework') that will enable us to understand the changing frequency and severity of climate hazards and prioritise climate risk management and adaptation efforts across all assets and activities to mitigate climate change impacts.

A draft Climate Change Risk Assessment and Adaptation Plan is being developed which includes:

- the key climate hazards (such as bushfires, severe weather, heatwaves, extreme rain and drought)
- a climate change risk register which includes risks across different asset types (including dams, pumping stations, reservoirs and distribution pipe network) as well as for WaterNSW services
- the output from the scenario analysis run across WaterNSW's asset locations showing current and future exposure to climate change across different hazards, scenarios and time horizons
- a draft high-level roadmap, including proposed key actions, timing and resources required to address key exposures and vulnerabilities.

As climate change refers to long-term shifts in temperatures and weather patterns, the time horizons being considered as part of the climate risk assessment and adaptation planning are over medium (2050) and long (2070) emergence timeframes.

The actions noted for delivery in Attachment 15 in the current determination period focus on planning for operating in a changing climate and integrating climate change considerations to enhance existing adaptation controls. These actions will have minimal impact on capital or operating expenditure in this determination period. Climate change is incorporated into a number of other initiatives in this submission seeking funding in this determination period, including the Warragamba Dam Resilience project.

How our strategic plans and priorities are reflected in our proposal

Our proposal reflects all key aspects of our corporate strategy. Our core functions are encapsulated in our purpose statement – Water when and where it matters. The bulk of our submission is about enabling us to do exactly this in the most cost effective way, while being responsive to customer needs. Our aim is to deliver water of the required quality to customers in line with their entitlement and allocation. We see ourselves as the custodian of the system capturing, storing and delivering water on behalf of all customers. Our operational activities and capital plans are built around doing this reliably, responsively, and efficiently while meeting our legal and regulatory obligations now and into the future.

We regularly consult with customers and our Customer Advisory Groups to validate our plans and proposals. During the development of our current submission we extended this to include a range of other stakeholders through our Water Working Groups as described in Appendix 2. Through these forums we presented participants with options on a range of both strategic and operational matters to obtain their feedback on our proposals. These included addressing customer raised issues as well as some we proposed as part of our longer-term strategy.

Our corporate strategy and strategic initiatives are discussed in more detail in Attachment 23, where we also highlight how our pricing proposal gives effect to our vision and purpose.

In developing the strategy and most of the key strategic initiatives for 2024-25, we have considered the longer-term objectives of the business. Where relevant we have shared some of this thinking with customers and the community through the Water Working Groups to determine their level of support. Those longer-term programs include:

- the approach and timeframes we should take to achieve net zero emissions and potential investment in carbon and biodiversity credit creation as part of our ESG program
- increasing investment in customer and community education and engagement, especially in regional NSW
- proposed investment in digital initiatives to reduce reliance on manual processes and improve transparency, efficiency and reliability of information and systems in a safe and secure manner
- options and approaches to fulfil some regulated requirements, notably cold-water pollution, fish passage and land management activities
- a focus on cost efficiency through the implementation of our cost transformation program which is to be supported by improved commercial capability across the business.

All these initiatives are reflected in our proposal, including a commitment to driving additional and sustainable cost efficiencies through revised practices, capability uplift and technology.

The following table summarises these proposals, while Attachment 3 goes into more detail about how our customer preferences and outcomes have been embedded into our business plans, including through these proposals:

Table 11 – Proposals supporting the achievement of WaterNSW corporate strategic priorities

Delivering operational excellence	Building a sustainable future	Respected by the customers and community we serve	Working together in partnership	Developing our people and capabilities
Additional investment in digital systems to improve data and information for customers and to securely manage water delivery assets	Additional land maintenance activities to manage weed and pest control and bushfire risk outside the declared catchment	Development of improved water ordering and online services for licence and account management	Development of technology roadmap in conjunction with DCCEEW and NRAR to avoid duplication and cost	Continue to manage and invest in safety of our workforce (and the public)
Invest to ensure security of data and information, including customer data	Potential investment in managing fish passage and cold-water pollution to reduce environmental impact of our operations	Improved engagement and relationship management processes including stronger on ground regional presence	Improving public safety to enable greater access to our dams and surrounding areas	
Investment in additional telecommunications to ensure operational sustainability in the field	Improved flood and drought management planning activities		Work with third parties to develop carbon/ biodiversity credits	
Extension to the water monitoring network to provide greater resilience in flood or fire and to extend the monitoring to additional sites	Potential to develop carbon and biodiversity credits through additional land management activities	Improved useability and additional information accessible via WaterInsights		
	Options for achieving net zero emissions			

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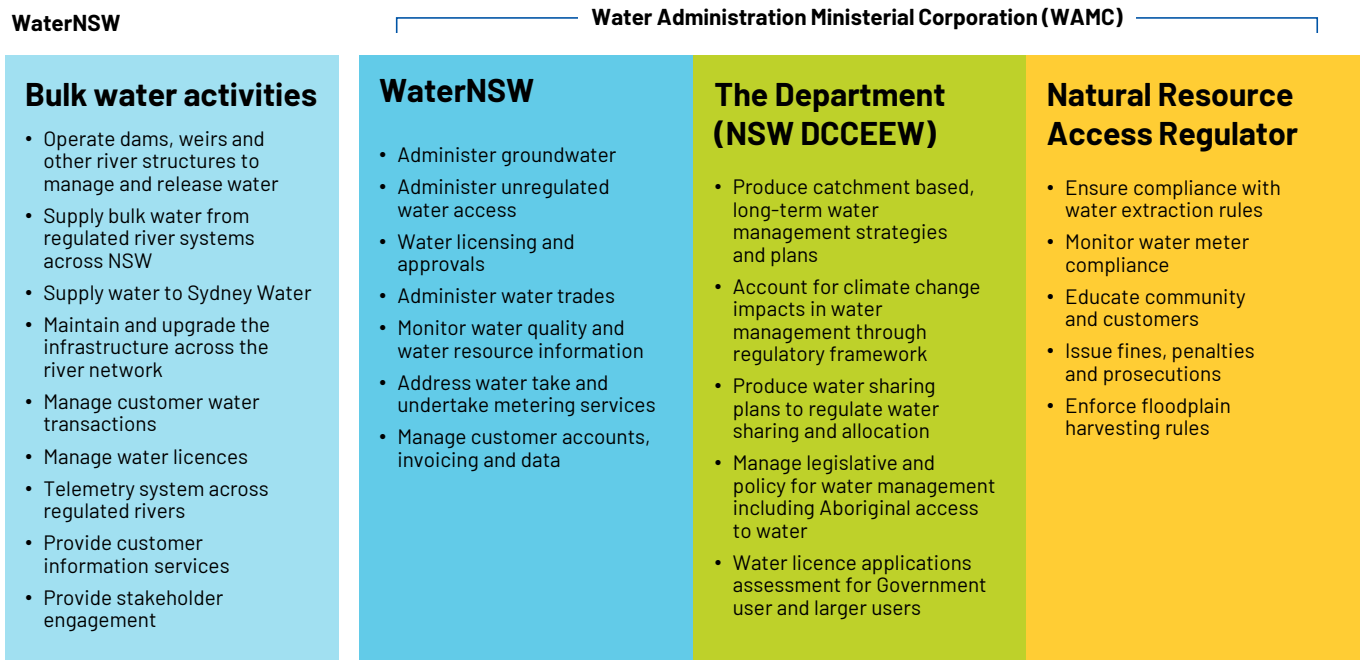
2. Our pricing proposal

The following figure summarises services provided by WaterNSW, the NSW Department of Climate Change, Energy, the Environment and Water (NSW DCCEEW) and the Natural Resources Access Regulator (NRAR) to the water sector. The services each agency provides reflects how charges appear on a water customer's bill. Customers receive charges on their bills or invoices for:

- WaterNSW bulk water supply to Rural Valleys (including Fish Rivers), Sydney Water and Hunter Water.
- Water Administration Ministerial Corporation (WAMC) services provided by WaterNSW, NSW DCCEEW and NRAR.
- Murray Darling Basin Authority (MDBA) and Border River Commission (BRC) services passed through to bulk water customers in Murrumbidgee, Murray and Border Rivers and to all WAMC customers based on a methodology approved by IPART.

Figure 19 – Services provided by WaterNSW and WAMC in the water sector



How charges typically appear on customer bills*

A groundwater licence or an unregulated river licence receives an invoice with WAMC charges

A bulk water or rural water licence receives both WaterNSW and WAMC charges

A customer in Sydney receives a Sydney Water bill that has WaterNSW charges within it

* Note that these charges are illustrative only and there may be other pass through charges on a customer bill.

As illustrated above, WaterNSW provides bulk water services to Greater Sydney and the Rural Valleys. We also provide, along with NSW DCCEEW and NRAR, various water management and administration services to customers on behalf of the WAMC, reflecting functions conferred on WaterNSW by the Minister for Water under NSW water legislation.

A combined proposal for bulk water services

This pricing proposal is the first that combines our proposed revenues and prices for Rural Valley bulk water services and Greater Sydney bulk water services that were previously the subject of two separate pricing proposals and determinations.

Even though IPART may decide to maintain two separate determinations, for Rural Valleys and Greater Sydney, there are significant benefits of moving to a combined proposal. These benefits include greater consistency, improved readability for customers, and reduced costs of regulation for IPART (in reviewing the proposals), WaterNSW (in preparing the proposals) and customers (participating in one rather than two or more engagement processes over multiple years, in some cases).

A combined proposal is ultimately of benefit to customers in terms of costs and effort, while also more accurately reflecting WaterNSW's role in the sector as a single organisation providing multiple services – this will help to provide more clarity of the roles of players in the water sector.

This pricing proposal covers pricing for bulk water services to Greater Sydney and Rural Valley bulk water customers.

Water Administration Ministerial Corporation services and charges

Charges for activities provided by WaterNSW for activities undertaken on behalf of WAMC functions conferred on WaterNSW are the subject of a separate joint pricing proposal prepared by NSW DCCEEW, NRAR and WaterNSW.

WAMC activities and their associated costs are only discussed in this bulk water pricing proposal where WaterNSW provides rural bulk water and WAMC services. We have presented our proposed operating and capital expenditure forecasts and our revenue requirements starting with a combined view of our Greater Sydney, Rural Valleys and WAMC services (WaterNSW portion only). This is to provide the reader with a view of our overarching activities and costs, which in several cases also include WAMC. Activities and functions that span across bulk water and WAMC services include our:

- cost allocation methodology which spans all of our regulated and non-regulated activities
- capital expenditure program
- operating expenditure program (for example, water monitoring and a portion of our support costs)
- cost transformation initiatives and proposed efficiencies

We manage our costs via a whole of business approach to deliver value to customers. Therefore, including WAMC services and costs in this bulk water pricing proposal provides visibility of how we manage our costs and activities to deliver our services.

More information on proposed WAMC charges from 1 July 2025, including WaterNSW-specific services and costs, can be found in the joint WAMC proposal.

We build, maintain and operate infrastructure

With 41 large dams across the state, WaterNSW supplies two-thirds of the water used by regional towns, irrigators, Sydney Water Corporation and local water utilities. We own and operate the largest surface and groundwater monitoring network in the southern hemisphere.

While our bulk water tariffs have a variable component based on water usage, we do not sell water. Our costs do not vary materially with water usage, including during fire, flood or drought.

We operate the state's dams like Warragamba, using our knowledge of nature, science and engineering. We build, maintain and operate essential infrastructure, the costs of which vary little with the amount of water we deliver.

We provide services to around 41,000 licence and approval holders across 13 rural river valleys in NSW, and Greater Sydney.

We are also responsible for delivering environmental flows on regulated rivers. Our customers across these locations are largely comprised of:

- private irrigators and irrigation companies
- Licensed Environmental Water holders
- water utilities, including Sydney Water Corporation and local councils.

Each valley in NSW is a water management area and has a water source. The maps in the section below show all the valleys across the state, each of which has a different tariff arrangement and water delivery infrastructure. A decision on future charges is made for each valley.

In operating our infrastructure across the state we have significant engagement and growing relationships with First Nations stakeholders and we are committed to improving our engagement with First Nations peoples across all aspects of our operations and projects, including through consultation on this pricing proposal.

Greater Sydney bulk water charges

In the Greater Sydney area, our role is to protect 16,000 square kilometres of drinking water catchments and manage dams, pipelines and other infrastructure that are used to supply customers with quality raw water. WaterNSW supplies raw water to urban water utilities for treatment and then consumption by Sydney, Illawarra, Blue Mountains, Southern Highlands and Shoalhaven communities.

Our customers include Sydney Water, Wingecarribee Shire Council, Shoalhaven City Council and Goulburn-Mulwaree Council. WaterNSW also provides raw and unfiltered water supply to over sixty other smaller customers. The area of our Greater Sydney operations shown in Figure 20.

WaterNSW promotes improvements in achievable water quality standards and contributes to the protection of public health and the environment through enhanced catchment protection practices in declared drinking water catchments.

WaterNSW works closely with NSW Government agencies and State-Owned Corporations including the NSW DCCEEW and Sydney Water to manage and plan for Sydney's long-term supply and demand.

The main services WaterNSW supplies in Greater Sydney relate to:

Source water protection

Protect the Greater Sydney drinking water catchment to ensure safe water is supplied to Sydney Water, local councils and other distributors for treatment and distribution to their customers.

Bulk water supply

Supply water from storage dams to customers in the Greater Sydney drinking water catchment and in NSW's regulated rivers.

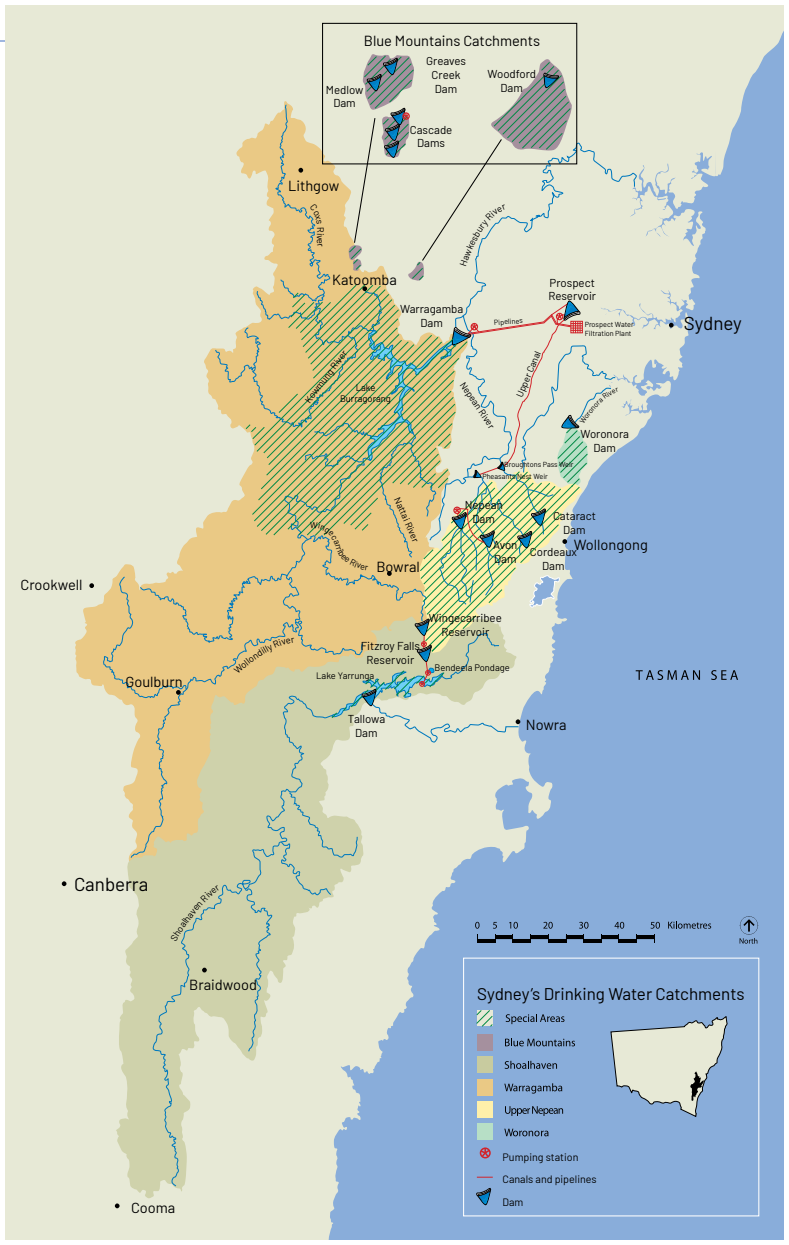


Figure 20 – WaterNSW's Greater Sydney area of operation

Infrastructure planning and delivery

Meet customer-defined levels of service consistent with NSW Government policy and relevant customer supply agreements, which include priorities to increase the security and reliability of water supplies to customers and the communities of NSW.

Rural Valley bulk water charges

WaterNSW's area of operations for rural bulk water services is divided into 13 valleys defined by a 'flow regulated' river catchment with a headworks storage such as a dam. These include the Fish River Scheme and the valleys illustrated in Figure 21 below.

Figure 21 – WaterNSW's Rural Valleys area of operations

In addition to billing, licensing and trade services for all entitlement holders in NSW, specific to this pricing proposal we provide rural bulk water services to around 9,000 customers:

- **Private irrigators and irrigation corporations**: Private irrigators use water for agricultural production while irrigation corporations distribute water supplied by WaterNSW to their retail customers.

- **Licensed Environmental Water (LEW) holders**: Typically government entities that release water for environmental purposes, licensed environmental water is increasingly becoming a major customer segment for WaterNSW.
- **Local councils**: Council customers include Dubbo City Council, Albury City Council and Tamworth Regional Council.

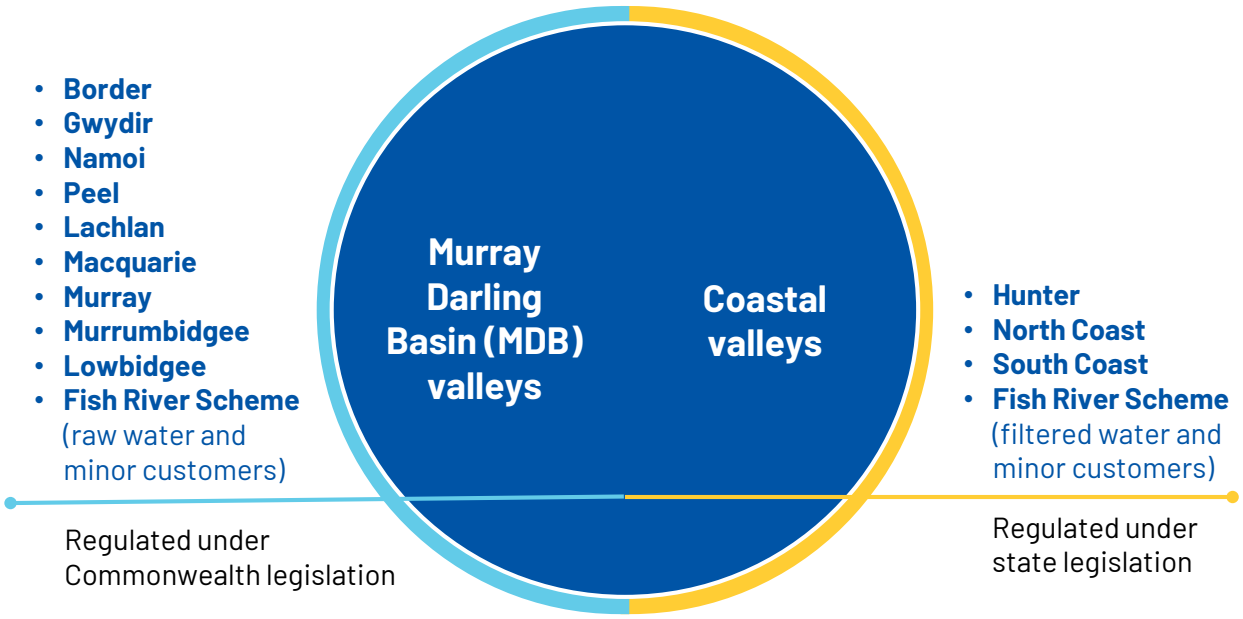
We meet community needs by providing water for stock and domestic users. We are also responsible for delivering environmental flows on regulated rivers.

Historically, the NSW Government plays a considerable role in funding (in whole or in part) the costs of providing bulk water services to our rural customers. In the 2021 Rural Valleys determination, the NSW Government funded $140 million over four years ($2020-21) through government shares and an additional $7.9 million over four years ($2020-21) for Community Service Obligations for the North Coast and South Coast areas. The NSW Government also provided $39 million of government share and Community Service Obligations over four years ($2020-21) funding for WaterNSW's share of WAMC services.

IPART to regulate Murray-Darling Basin Valley charges under state law

During the 2021 Rural Valleys Determination period, the economic regulation of the Murray-Darling Basin (MDB) valleys was undertaken by IPART under Commonwealth legislation, while the Coastal valleys were regulated by IPART based on NSW legislation (see figure below).

Figure 22 – Murray-Darling Basin and Coastal valleys regulation in 2021



From 1 July 2025, the economic regulation of the MDB and Coastal valleys will both be undertaken by IPART based on NSW legislation.

For the 2025 Determinations, IPART will regulate the MDB valleys by applying NSW state law, rather than the Commonwealth legislation that governed previous bulk water determinations, and neither IPART nor the NSW Government will need an exemption under the Water Charge Rules 2010 (WCR) to do so. In previous Rural Valleys determinations, IPART (under ACCC accreditation or the ACCC directly) approved or determined Basin infrastructure charges under the Commonwealth framework in the WCR. IPART regulation under state law means that:

- IPART will calculate the WACC using IPART's standard method that applies to all water businesses it regulates.
- IPART will calculate the WACC using IPART's standard method that applies to all water businesses IPART regulates.
- IPART will assess the pricing proposal using its new water pricing framework. [8]
- IPART will set regulated charges in accordance with section 15 of the *IPART Act 1992* (IPART Act), which includes much broader considerations than that contained under the WCR, including consideration of the 'social impact' of IPART's determinations or recommendations.
- IPART will also be subject to any direction made under section 16 of the IPART Act (which would have otherwise been ineffective under the WCR).[9]

Implementation of price determinations

The above price determinations set out the maximum prices and methodologies for calculating the maximum prices WaterNSW can charge its customers for the services described in the relevant determinations. WaterNSW has implemented the outcomes of the decisions and determinations by charging customers the maximum prices as set out in, or as calculated by, the decisions and determinations by the regulator.

[8] A framework that focuses on customers, costs and credibility - the 3Cs framework; https://www.ipart.nsw.gov.au/Home/Industries/Water/Reviews/Metro-Pricing/How-we-regulate-the-water-businesses.

[9] For example. Section 11 under the SOC Act for 'non-commercial activities' and initial investment in the Broken Hill Pipeline.

3. Engagement with customers and stakeholders

WaterNSW is putting customers at the heart of our decision making. Our investment in this consultation and engagement represented our largest and most in-depth engagement in our history. We set out to genuinely listen and engage early and collaboratively with customers and stakeholders across the development of our proposal. We aimed both to genuinely deepen our understanding of our unique and diverse customer base and to ensure that our services reflect our communities' priorities and preferences.

We started to engage on the pricing proposal in December 2022 with a focus on how we might connect and consult, to ensure that our engagement strategy and design was informed by customer preferences. Early CAG consultation helped shape our Engagement Plan. In particular, we incorporated customer requests on the following:

- joined-up consultation with DCCEEW and NRAR, in response to their request for better coordination between the water agencies
- exploration of the issue of cost shares between the government and customers
- participants to consist of a mix of stakeholders, with results to be segmented by stakeholder cohort
- complete transparency of conversations and results.

Our approach to engagement is detailed in our published Engagement Strategy and our final Customer and Community Engagement Summary report, Appendix 2 and summarised below. In addition, we have published on our website four reports detailing our engagement which directly report people's views, as expressed to us.

As this is the first time this process has been achieved it represents best practice to date for water planning, delivery and compliance regulatory engagement.

To begin with, we analysed previous engagements to better understand what we had learnt so far about customer expectations and community insights, and then used that as a basis for our first round of listening and collaboration. We sought community and stakeholder views to help us develop guiding values and refine our stakeholder outcomes.

Historically, WaterNSW has relied heavily on our Customer Advisory Groups to be the main vehicle for engagement on pricing proposals. For this pricing proposal, in line with community expectations and the new IPART regulatory model, WaterNSW broadened its scope and increased efforts to deliver a higher level of engagement which was both broad and deep, seeking out customers and community who we didn't regularly speak to. We committed to improved listening and responding to the expectations and feedback of customers, stakeholders and the wider community.

In doing so, we focused our efforts to better understand the services that customers value, as well as their varied and sometimes changing needs. This means placing customers and stakeholders at the front and centre of our decision making. We asked our customers and stakeholders for their thoughts on what is important to them in how water services are managed by WaterNSW, and we asked them what they most value in the services we provide. Following an engagement program which delivered both breadth and depth, we have embedded customer priorities and insights into our business plans to deliver better customer outcomes. Attachment 3 particularly focuses on precisely where and how we can evidence this.

We travelled to connect with customers where they live, attending many field days and stakeholder meetings. We established four Water Working Groups (each of which met five times over nine months, with one additional catch-up meeting) to collaborate with us on content for our submission. We engaged our Customer Advisory Groups in detailed conversations (five meetings over 18 months) around pricing and operational matters, to ensure that they had significant and successive opportunities to express their preferences, and

input into shaping our pricing proposal. We met with industry representatives, large customers and council customers. We visited 25 regional communities, including on our First Nations Listening Tour.

Our proposal reflects our continuous evolution as a customer-centric organisation which values genuine two-way dialogue and listens closely to our customers and stakeholders. It enacts a deliberate step change to improve the scope and quality of our engagement and its impact within our organisation, delivering greater customer value.

Our engagement objectives

WaterNSW seeks an enduring high-quality engagement with our customers and stakeholders, and one in which we strive to continuously improve these relationships and outcomes beyond this formal IPART engagement. The engagement approach adopted by WaterNSW, and supported by our experienced engagement partners SECNewgate, has been underpinned by IPART's six principles for good engagement:

1. Meaningful and sincere engagement.
2. Diverse and inclusive engagement that is accessible and tailored to the customer base.
3. Balancing customer and environmental needs.
4. Relevant, timely, and appropriate.
5. Transparent and accountable.
6. Representative, reliable, and valid design.

Our engagement design

Our multifaceted approach to engagement was informed by customers and – as illustrated and detailed below – enabled broad and deep engagement with a diverse customer and stakeholder base. It also detailed the tools and strategy adopted for meeting our engagement challenges and the 3Cs framework. Our engagement strategy was only finalised once we had incorporated feedback from our Customer Advisory Groups on its design.

There were three phases, and each phase was conducted over approximately six months.

1. Check in, listen and discovery.
2. Customers and community deliberate on priority outcomes.
3. Confirm our pricing proposal.

WaterNSW's engagement was designed to be universal, inclusive, representative and accessible, and we endeavoured to secure community members who were vulnerable or in hardship. The design of this engagement process was mindful of IPART's Handbook (July 2023) and IPART's considerations of good engagement practice, as described above.

We are proud to have received positive feedback on our engagement, as detailed in our final Customer and Community Engagement Summary (Appendix 2), and believe we have met the goals of being meaningful and sincere, balancing customer and environmental needs, being relevant, timely and appropriate, and transparent and accountable. Appendix 2 also outlines how this was achieved.

The additional goals of diverse and inclusive engagement that is accessible and tailored, and representative, reliable, and valid design, are discussed in more detail below.

Listening first

We analysed multi-year previous engagements to better understand customer expectations and community insights, and we asked our customers how we could best consult with them and what good engagement looked like. These insights and feedback helped shape the design of our Engagement Plan for this pricing proposal, and

our starting point for consultations, listening and engaging. For the first time we also embarked on a First Nations Listening Tour to better understand what was important to them and what they valued about water delivery and services.

Recruitment to our Water Working Groups

These groups were designed to be a mixture of customers and community, and meetings were held online. A key goal for recruitment was to ensure the involvement of people living across NSW with as much of a geographic spread as possible, particularly people beyond the highly-engaged customers we regularly communicate with.

For all participants except community residents, WaterNSW recruited directly through cold calls and emails, and we contacted people who had indicated they were interested in participating or knew someone else who might be. We specifically sought to recruit Fish River customers to our Central Water Working group, and we were successful in this, although their attendance was not consistent.

For our community residents, a third-party recruitment specialist was contracted to obtain a good cross-section of people, including those from vulnerable groups to ensure broad representation, in order to gather a range of perspectives and experiences throughout our consultation. Our engagement was designed to accommodate this broad diversity of people, from those with high water literacy and excellent understanding of the challenges for water users, to residents from a variety of backgrounds.

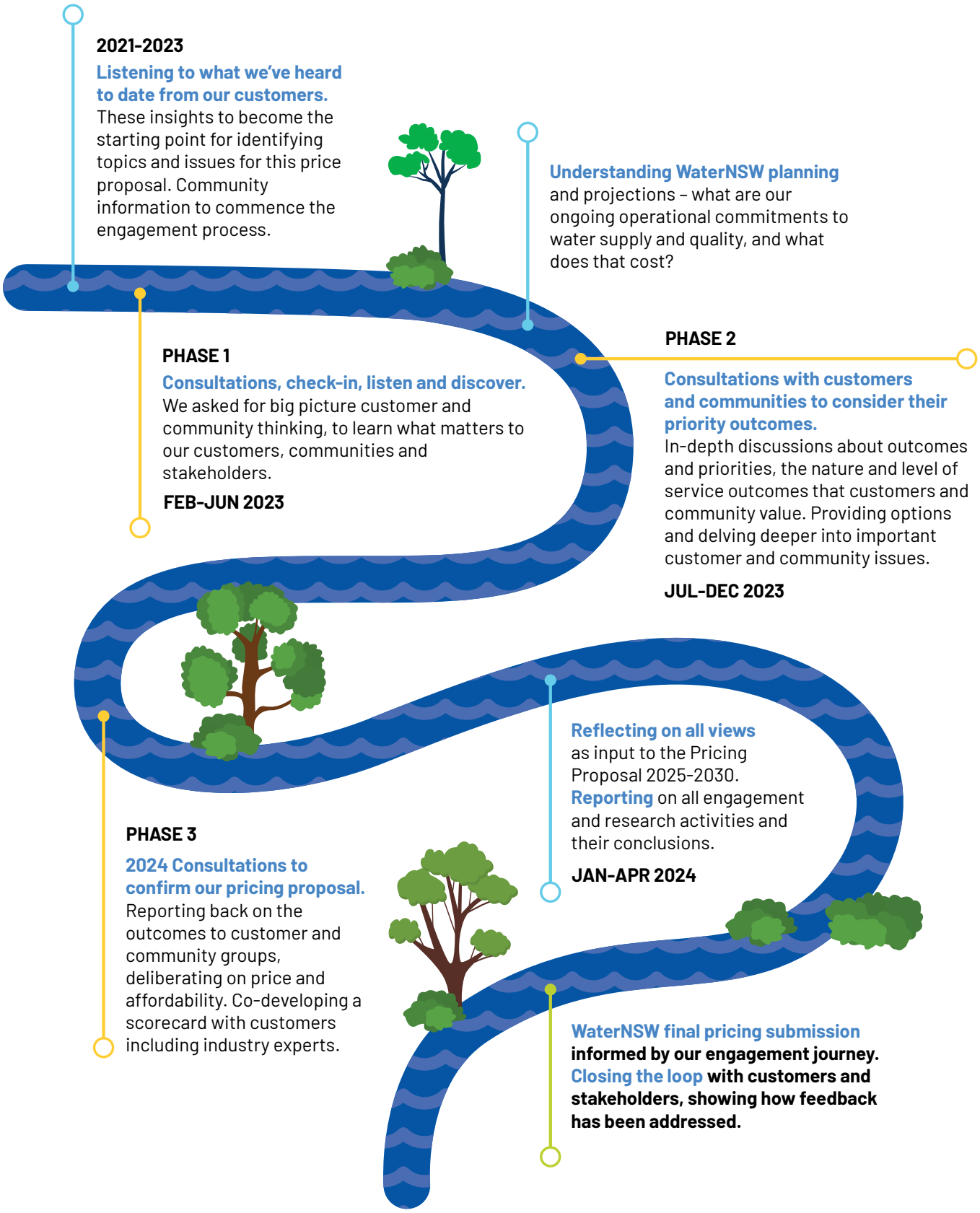
Education within our Water Working Groups

When we engaged with the Water Working Groups, there was already a thorough appreciation of the education task in front of us. Both WaterNSW and the working groups already understood from our previous research that there is widespread confusion about the role and remit of each of the water agencies, and some frustration on the part of customers. We appreciated that the industry is complex for community participants, and that without prior knowledge they would require a significant and targeted investment in upskilling, so we collaborated to prepare a good educational grounding for participants.

Our engagement and the IAP2 Spectrum

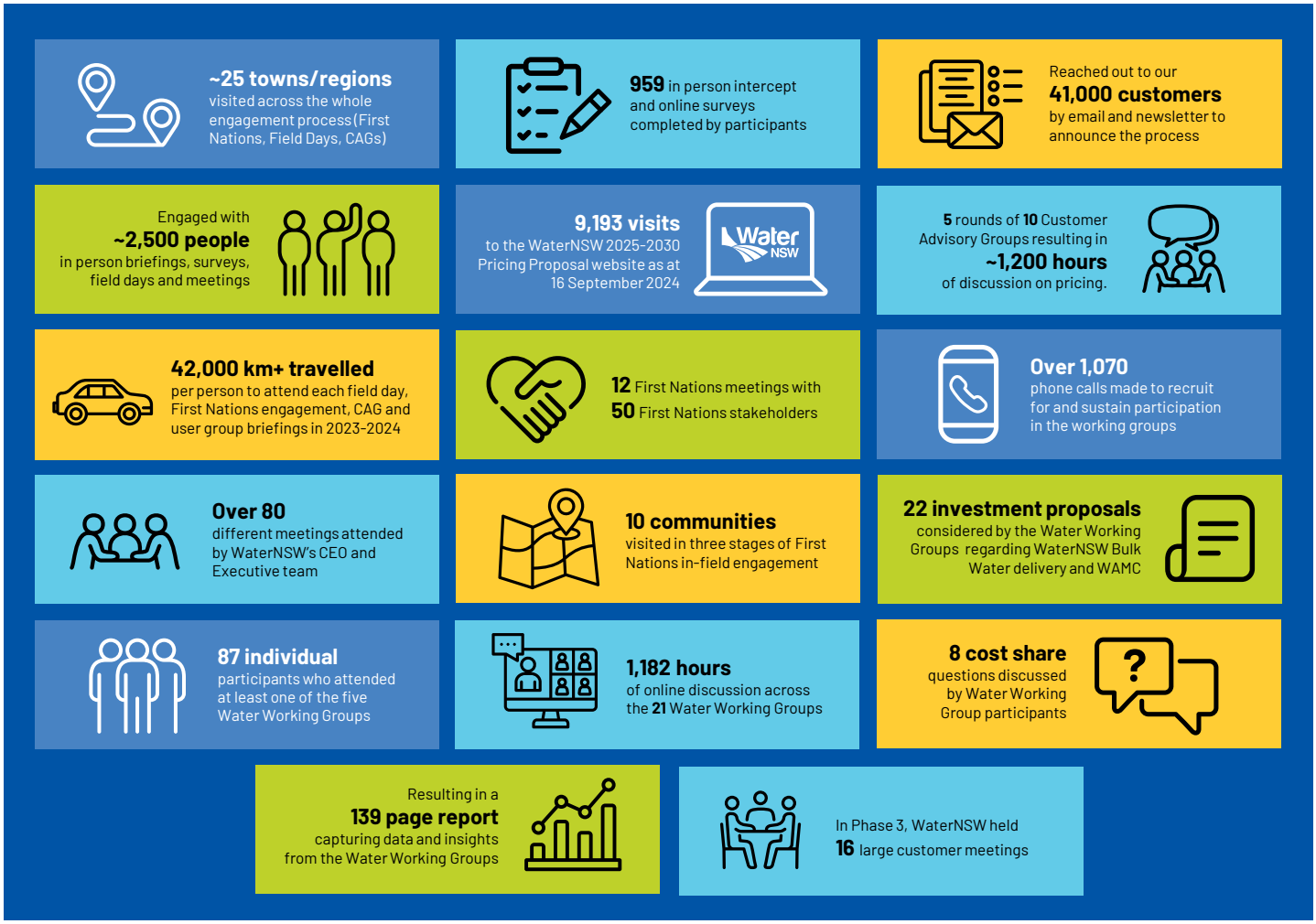
Situating our engagement on the IAP2 Spectrum, the bulk of water engagement traverses the levels of "inform, consult, involve and collaborate" depending on the activity. In CAGs and in the Water Working Groups, we **consulted** on activities to impart information and educate participants, building their capacity for meaningful participation and enabling informed decision-making. In deliberating on investment levels for specific projects in the Water Working Groups, we **involved** them in shaping and guiding our business decisions. At other times, our regulatory team **collaborated** with key water groups to assist them in their decision making. For example, as a result of detailed discussions with the Lachlan Valley, we provided specific cost shares analysis, and generated a 10-year analysis on potentially different tariff structures for each CAG.

Figure 23 – Our engagement journey and how it shaped our submissions



A snapshot of our achievements and interactions since the beginning of the pricing proposal engagement process is provided below.

Figure 24 – A snapshot of our engagement achievements and interactions



Who we engaged with

WaterNSW Customer Advisory Groups

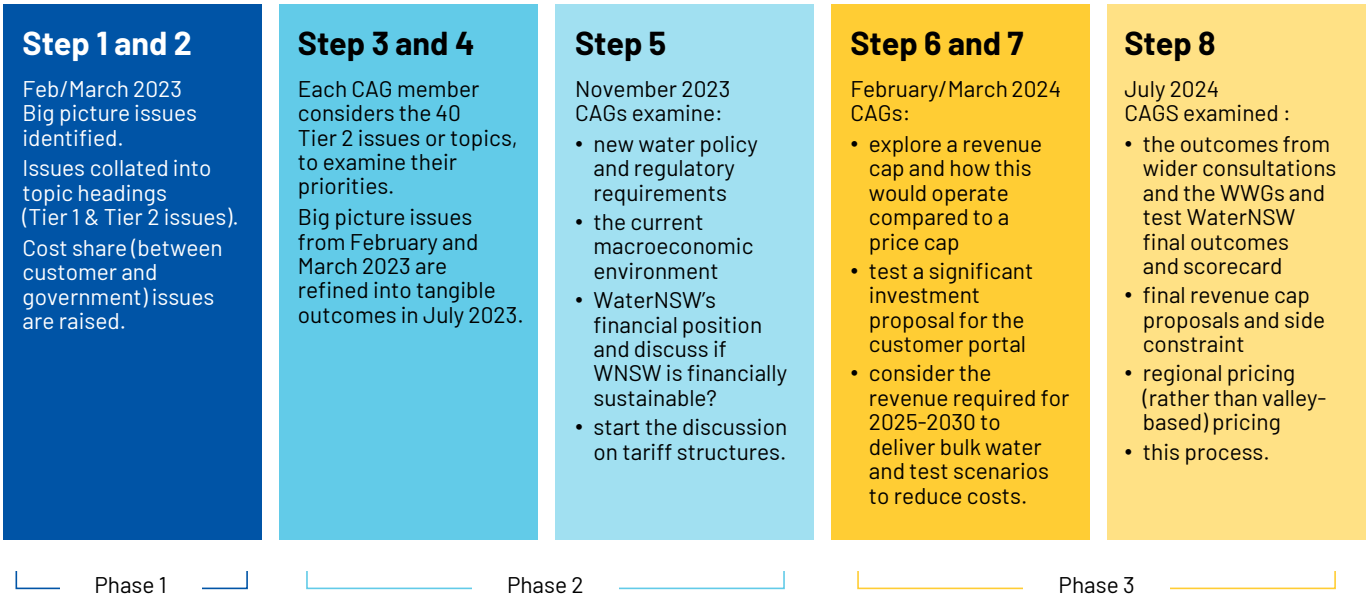
Customer Advisory Groups are a primary forum for WaterNSW to regularly consult, on a valley-by-valley basis. They include a broad cross-section of our customers and provide a forum for discussing issues relevant to the performance of our obligations under the WaterNSW Customer Service Charter and our operating licence.

These Customer Advisory Groups include more than 95 different organisations from across NSW. Membership includes WaterNSW customers from the regulated and unregulated streams, groundwater irrigators, stock and domestic water users, major water utilities, local water utilities, local government, environmental water users and Aboriginal Cultural Heritage water users.

The Customer Advisory Groups commenced discussions on the pricing proposals in February 2023 and concluded in August 2024.

Below is a summary of the eight-step process followed by the Customer Advisory Group throughout the discussions.

Figure 25 – 8 Steps for our Customer Advisory Group discussions



The Customer Advisory Groups discussed:

- their priorities for services and activities by WaterNSW in 2025-30
- services and activities they would like to see in 2025-30 (noted in the figure above)
- current and future sharing of costs for services and activities between customers and the government
- issues related to new water management policy or regulations set by the State and Commonwealth Governments, and the cost implications for WaterNSW (and therefore our customers) to operationalise these
- 2025-30 revenue needs for the delivery of bulk water and the drivers of these costs
- options for the form of control in the future – a price cap or a revenue cap (introduced in July 2023, with further content to inform deliberations added to subsequent presentations at the request of CAGs)
- the mix of fixed to variable charges and WaterNSW's need to have a minimum 'fixed charge'
- an update on our submission content including our revenue needs and recap on the impact of a Revenue cap for each valley.

Online surveys

As detailed in our Final Engagement Summary, and in addition to the Water Working Groups and Customer Advisory Group interactions detailed here, engagement with the broader community included the completion of 959 surveys.

The survey asked people to identify what they would like to see WaterNSW deliver in the years 2025-30 and their high-level priorities. These informed the iterative process of developing the top customer outcomes.

Water Working Groups

The methodology for the Water Working Groups was developed following best practice considerations:

- IAP2 best practice engagement framework [10]
- IPART 2023 Water Regulation Handbook
- Good practice suggestions raised by customers that are part of the Customer Advisory Groups.

The Water Working Groups (four groups that met five times over a nine-month period) were made up of a range of stakeholders who represent various water users and interests. This included licensed customers across industry and agricultural producers, recreational water users, local government agencies and environmental associations as well as residents randomly selected. Customer Advisory Group members were invited to join the working groups, with a focus on including customers not already represented on the CAGs.

Community representatives who do not have a licence, but fund a proportion of costs through taxes, were invited. Each stakeholder uses or accesses water, and all stakeholders raise valid and important issues regarding the management of water.

Figure 26 – Stakeholder types involved in the Water Working Groups

Stakeholder types approached to participate in the groups	Participant recruitment goals
CAG members	One per valley
Water user associations and water trusts	One per valley
Irrigation infrastructure operators	One per valley
Agricultural producers that are not on the CAGS	One per valley
Wider industrial activity representatives for example mining, manufacturing, transport	One per working group
Councils	One per valley
Environment group or landcare group representatives	Two per working group
Recreational group representative	One per working group
Community organisations for example a Rotary	Two per working group
Residents randomly recruited	Two per valley
Commonwealth environmental water holder	One
State environmental water holder	One

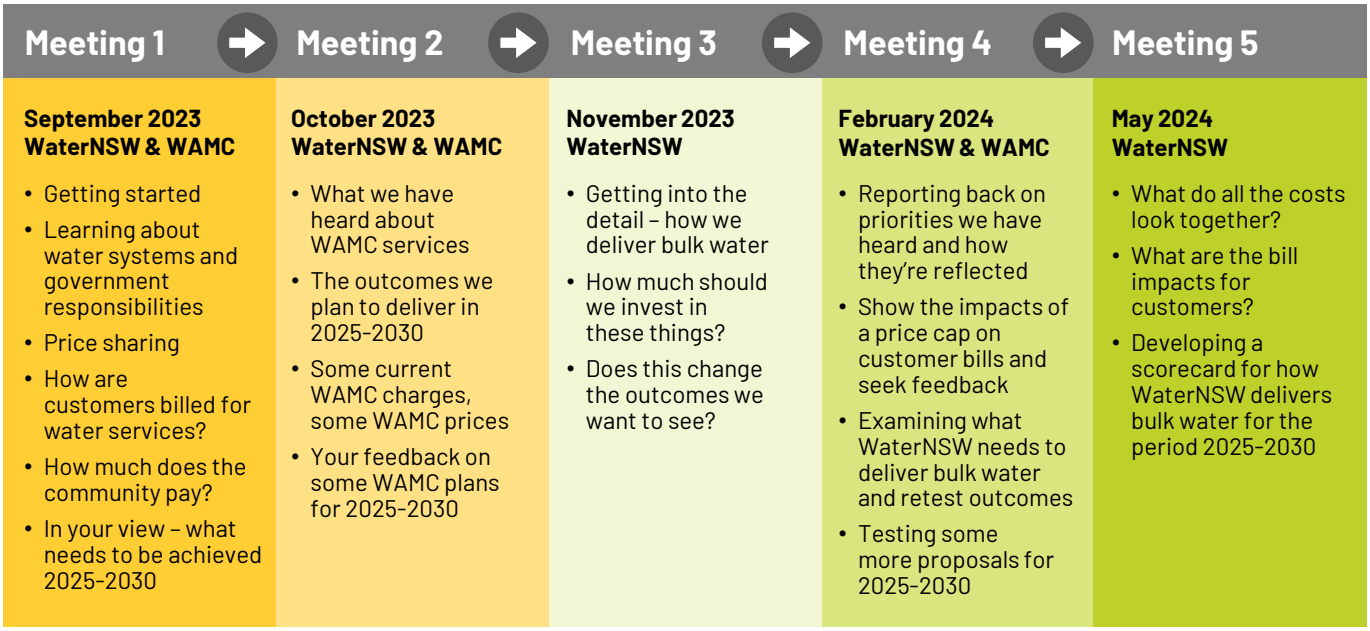
Participants were asked how they identified in each meeting:

- customer (holding a water access licence)
- government
- community
- industry
- environment.

Below is an outline of the approach for conducting the 2025-30 Water Working Groups, a key input to the pricing proposal, and the methodology of developing this forum. These groups involved WaterNSW, DCCEEW and NRAR, and is the first time all three water agencies have collaborated in this way to consult with customers and community.

[10] Your Peak Body for Engagement | IAP2 Australasia

Figure 27 – Our approach to conducting the Water Working Groups



The relationship between the CAG and WWG engagement over the three phases, and the different content for each audience, is discussed in Appendix 2.

3.2 The three phases of our engagement process

Our three-phase engagement plan is detailed in our Customer and Community Engagement Strategy 2023 and 2024 and in our Final Engagement Summary report.

In summary, our engagement process was designed with the following aims:

Phase 1 – We took early customer insights and developed a long list of high-level customer outcomes, listed below. These outcomes were then scrutinised by participants at the Customer Advisory Groups, tested over a period of several months in a broad community and customer survey, and discussed in hundreds of conversations with people at different events across NSW. The priority outcomes we arrived at were:

- water affordability
- water security and reliable delivery
- better transparency – customer charges and WNSW expenditure
- sustainable water and land management
- easy customer and community access to data and information
- good customer experiences
- better engagement and relationships.

Phase 2 – We refined our customer outcomes and developed proposals to address these. The Customer Advisory Groups were consulted in July 2023 regarding the outcomes they would like to see for 2025-2030. Overall, the outcomes that were explicitly nominated could be:

- considered as part of normal business operations or improvements, and as such are addressed as normal operational costs in the 2025-2030 price proposal, or
- addressed by specific investment proposals for consideration by the Water Working Groups, or
- considered out of scope for the 2025-2030 pricing proposals.

In all, **128 outcomes** were nominated by the CAGs, of which 43 were directly included as part of either

the WaterNSW or WAMC price proposals, and 63 were considered in investment proposals put to the WaterNSW Water Working Groups. These outcomes are further detailed in the Final Engagement Summary report (page 45).

We tested 22 different proposals (13 Rural Valley plus 9 WAMC proposals) in three rounds of meetings of the Water Working Groups. We drilled down into each about what participants thought initially and where they landed again once all the proposals were discussed and considered, to get a greater sense of shifts in sentiment once all the proposals were on the table. The testing allowed for some proposals to be dropped and others carried forward, further refining our outcomes and the level of expenditure, and levels of service tied to them.

Phase 3 – We closed the loop with the fifth and final meetings of the Water Working Groups to demonstrate how we've embedded customer preferences in six final outcomes and also reported back on the level of investment for asset maintenance for each valley. We reiterated during these sessions the importance of measuring our success, and in the July CAGs we tested a 'straw person' to show how WaterNSW could achieve this, outlining the level of proposed investment defined in the final investment proposals for submission to IPART. We also tested one additional proposal.

What we learned matters to customers and stakeholders in Phase 1

When looking more broadly across the state and at prior engagement and research, we learned that (in no particular order):

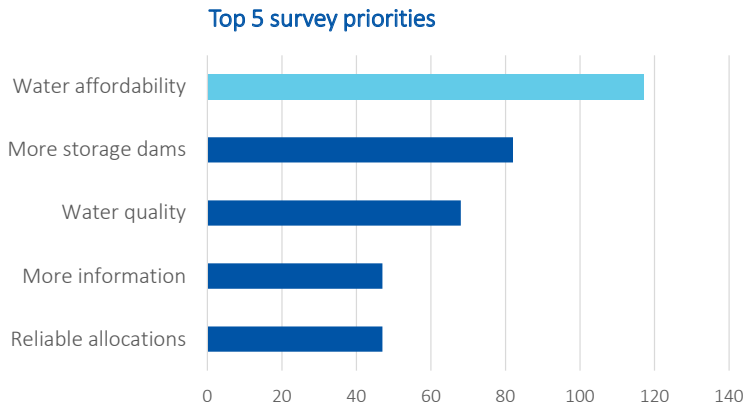
- Reliable and consistent customer service delivered by local WaterNSW employees is highly valued.
- Customers understand that prices are likely increasing, but this increase must be at a sustainable rate and communicated clearly. Small agricultural producers in particular are impacted by a history of price increases and fear they will cease to be viable if prices increase too steeply.
- Customers feel doing business with WaterNSW could be improved. Despite improvements, systems are still complex and time consuming.
- WaterNSW investment in good corporate citizenship, including environmental projects, would be supported.
- Water reliability and security is a priority – with the drought approaching some felt fairer distribution of water between customers is needed.

There is support within First Nations communities for a review in Cultural Water Access and Licencing, to better enable First Nations communities to directly manage water in support of their values and cultural sites. Greater engagement is needed with First Nations communities in order to operationalise these emerging policies. These matters were referred to DCCEEW for their attention.

Survey results

Broadly, the priorities for survey respondents were that water be affordable in the future, that infrastructure be increased to lift the water holding capacity of the system, that water remain of high quality, that customers receive their water allocations and that plain English information be readily available on how the water system works. For more detail, please see our Phase 1 report and Final Engagement Summary report.

Figure 28 – Top 5 Survey priorities



What we learned matters to customers and stakeholders – Phase 2

In Phase 2 we focused on deeper conversations and on bringing proposals to customers and stakeholders that spoke to their priorities. Between July and December 2023, WaterNSW embarked on an engagement and consultation program which took customers and communities on a deliberative journey to understand the services and activities that should occur in the period 2025-30. We delivered the first three sessions of the Water Working Groups, two in conjunction with NRAR and DCCEEW, and the last November session focused solely on WaterNSW proposals. This was the first time the three agencies had worked together to deliver joined up consultation on a pricing proposal.

In addition, Phase 2 provided a closer examination of the economic context and water delivery costs in 2025-30. The relationship with CAGs evolved, with WaterNSW sharing more detailed financial information and customers deepening their appreciation of the water system and the role of WaterNSW. Engagement occurred across the 10 CAGs in November and December 2023.

Phase 2 of our engagement journey provided strong insights into customer preferences and what they value and expect from our services. Our customers told us they:

- highly value our core services – delivering water when and where it matters
- should not be paying for services which they see as the remit of government – they suggest that the current cost sharing arrangements are not appropriate for dam safety, fishways and other environmental initiatives, or for public safety at recreational sites (see Attachment 25 for results of our cost share discussions, and the Working Water Group report).

Community and customers alike:

- want to highlight the criticality of water to life, and to promote the economic vitality of urban and rural towns
- raised concern around ensuring regional NSW can continue to thrive in the face of population growth and climate change
- want to see positive environmental and community outcomes from the services we provide
- do not want us to lose sight of the ongoing affordability challenge
- expect services to be sustainable and in partnership with community
- expect us to take a forward view and to be innovative
- want us to directly address climate change
- want transparency in relation to what we do and how we do it, including future expenditure challenges.

In July and August 2023, the Customer Advisory Group members considered the outcomes they wanted to see delivered by WaterNSW during 2025-30. They refined their issues to those changes that they felt were material and achievable. Across all the advisory groups their combined top three priorities were to achieve:

1. Water security and an assurance of allocations being delivered, to help them plan ahead.
2. Much greater transparency of WaterNSW and WAMC costs and pricing.
3. Better drought planning, priorities for water restrictions and water conservation.

For First Nations participants, our Phase 1 to Phase 3 priorities focused on:

- capacity building for First Nations People
- river operations and First Nations roles in decision-making
- sustainability concerns regarding the health of rivers
- river water flow levels
- water allocations
- water quality

- recognition of First Nations cultural relationship to water
- using the shared knowledge of women as a priority
- consultation process
- employment outcomes for First Nations People.

In Phase 2, we took customer and stakeholder insights and preferences, crafted proposals to address some of these priorities, tested these proposals in the Water Working Groups and analysed the results, along with other inputs, to shape our business plans and arrive at this submission. We presented the proposals to the Water Working Groups asking participants to express support for either keeping the status quo, doing something (doing a little) or making all improvements (doing a lot). The details and results of these proposals are provided on page 51 of Appendix 2, our Final Customer and Community Engagement Summary.

Our First Nations engagement was more organic and responded to the recommendation to engage early. Largely spread over Phases 1 and 2, our First Nations engagement involved meetings with 48 representatives and community members in 11 locations across New South Wales. In Phase 3 a follow up meeting with the NSW Aboriginal Land Council reconfirmed many of these First Nation priorities including employment. These engagement activities, priorities and outcomes are detailed in the Final Customer and Community Engagement Summary, Section 3.2.2 'Priorities identified in First Nations discussions'. Other documents which provide more detail include the Phase 1, 2 and 3 reports, and the Water Working Group Summary report (for participants).

What we learned matters to customers and stakeholders – Phase 3

One of the major outcomes of Phase 3 was the co-designed scorecard, which utilised the customer outcomes developed from Phase 1 high-level priorities and developed appropriate SMART performance measures and transparent reporting in consultation with customers and stakeholders. The scorecard will work to reflect our performance against these measures for the 2025 – 30 period.

In Phase 3 we:

- conducted meetings across 13 valleys with the Customer Advisory Groups in February/March and July/August 2024
- held meetings with various water user groups including irrigators, producers, councils, environmental water holders
- completed the final two meetings for the Water Working Groups in Phase 3 and detailed notes can be found in the Water Working Groups Engagement Report
- prepared a scorecard, developed both with Water Working Group participants and in close consultation with our Customer Advisory Groups.

Our discussions with participants examined:

- the current macroeconomic operating context for water users
- an approach to be taken for asset maintenance in 2025-30
- the issue of new water management and delivery policy and the cost implications of this
- the merits of shifting the form of price control to either a revenue cap or a price cap (with higher fixed charges) for WaterNSW rural bulk water customers
- the options and scenarios to manage the revenue needed to deliver water in 2025-30 funding alternatives to deliver bulk water, including a 15% price increase cap (plus inflation) across all valleys each year
- the merits of adopting regional, rather than valley-based customer pricing

- WaterNSW's draft outcomes for 2025-2030 and the metrics to measure progress of these outcomes.

Further discussion on proposals

We also reported back and responded in Phase 3 to either tailor a proposal to the level of service nominated (and where other statutory obligations came into play to explain these), or not proceed with the proposal where it failed to attract support (for example, to extend customer service call centre hours).

Where there was a departure from the preferred customer outcome, we explained the reason for this (for example, a publicly mandated service which we have to perform, or when we have to ensure a level of reliability, which requires a minimum level of investment, otherwise our assets will fail and put our customers' water supply in jeopardy). We closed the loop with customers and stakeholders in the Water Working Groups to inform them where we had landed. The details and results of these proposals are provided in Appendix 2, our Final Customer and Community Engagement Summary.

In Phase 3 we also focused on customers' consideration of future pricing structures and administration of the regulated river valleys.

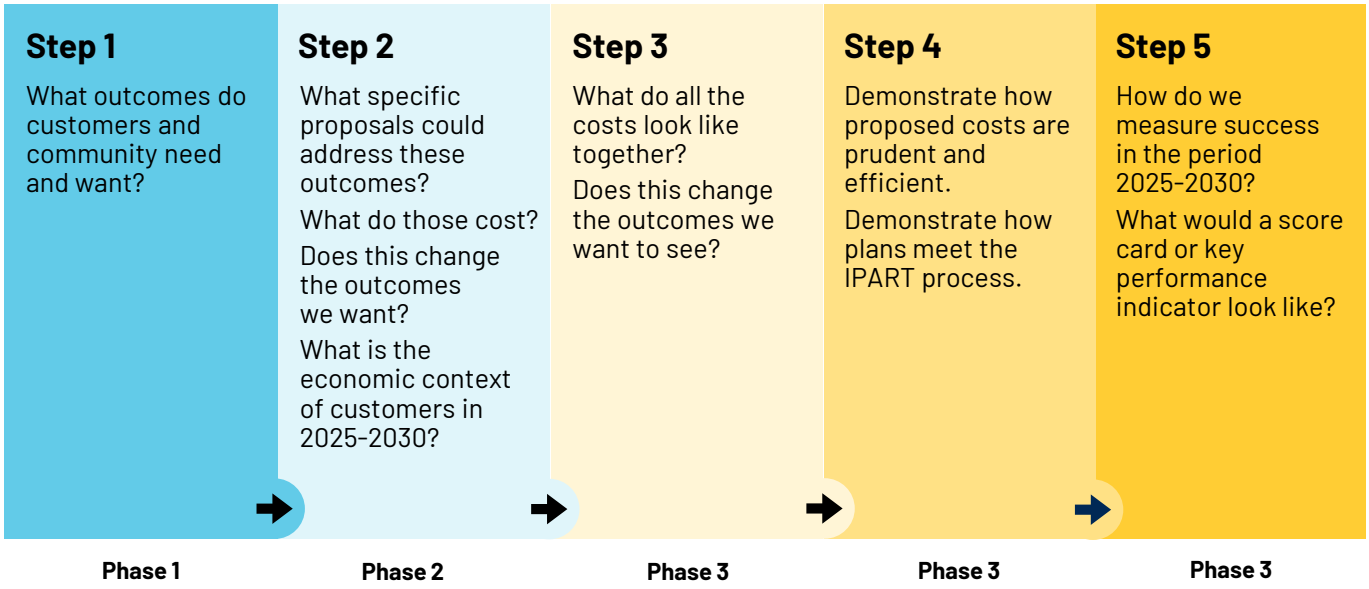
Our engagement approach remains underpinned by IPART's six principles for good engagement, detailed in our Final Engagement report. In summary, participant responses on a range of financial concepts and pricing are outlined in the table below.

Table 12 – Responses to proposed pricing structures and financial concepts

Financial proposals	Participant responses
Scenarios for government to accept cost sharing for items that result in a high proportion of community benefit	Broad approval across most participants.
New tariff structures – revenue cap or price cap	Broad approval (86% in survey responses) for a Revenue Cap from many groups once detailed discussions had occurred, other groups who have not examined the detail are uncertain.
Increasing the higher fixed portion of customer charges	A highly mixed response from customers. The potential impacts to water use and trade were discussed as possible outcomes of higher fixed charges, which could have unintended consequences for a valley. Separate discussions with Commonwealth and State Environmental Water holders show openness to this concept.
Cost reflective base case – recovery of the true cost of services provided by WaterNSW, by customers	It was recognised by both customers and WaterNSW that the true cost, the cost reflective base case, was likely not an affordable revenue amount for both customers and WaterNSW without intervention.
15% cap in price increases each year for five years (excluding CPI)	Broad acceptance that this may be the only feasible outcome, with customers noting a likely high negative impact to both small producers and customers with permanent plantings. It was recognised councils are not able to pass costs on and will struggle with the increased charges.
Regional pricing (two regions, northern and southern)	Tentative in-principle support from the majority of preliminary CAG conversations, with some concerns about the process and transparency of the prioritisation of works across a region also meeting individual valley commitments. Concerns regarding a lack of wider discussions on the proposal for cross water customers. Customers in the South held the greatest reservation, citing the need for more time being needed to understand how the new approach would work.

The flow chart below captures the overall method in Phase 3.

Figure 29 – Our approach to engagement in Phase 3



We arrived at the final six priority outcomes for 2025-30, which are clear priorities from conversations across the state with stakeholders, and the metrics to be used to provide the customer and community with a public performance scorecard. Details on the six customer outcomes and their associated performance measures are contained in the following Chapter, as well as in Attachment 4: Customer Outcomes and Performance measures.

This authentic and outcome focused method of engagement will continue beyond the 2025-30 pricing proposal process for WaterNSW to achieve enduring engagement and build strong relationships with customers going forward.

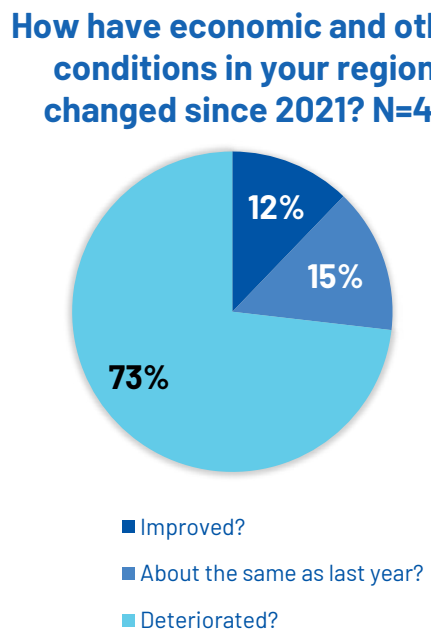
Our pricing proposal is the result of this comprehensive engagement program focused on understanding and addressing the needs of our customers across the water sector, government and industry, as well as the broader community who benefit from our services. It is the most extensive engagement WaterNSW has ever undertaken.

Topics of concern

The most frequently identified topic of concern for customers and community members was water affordability. Having affordable access to water over the 2025 Determination period was the number one priority. Some participants across different discussions noted that the combined pressure of increased cost-of-living, increased cost-of-production, and future water pricing increases would likely make their business untenable in the next determination period.

The image below is from the Water Working Groups in which we asked their views on whether economic conditions have improved, stayed the same or deteriorated. A majority (73%, n=41) of participants in this question felt that the economic conditions of their region have deteriorated since 2021.

Figure 30 – Water Working Group views on whether economic conditions have changed since 2021



An issue of particular interest for customers is the cost shares for WaterNSW bulk water charges, where approximately two-thirds of our efficient costs as determined by IPART are currently met by customers, and the remaining one-third is met by the wider community through the government share (ultimately funded by the NSW Government through consolidated revenues).

We have listened to our customers' concerns and responded by providing scenarios for IPART's consideration, proposing some adjustments to the current cost shares that reduce the component of costs funded by users. Our approach to cost shares is discussed in Attachment 25.

How community and customer feedback shaped WaterNSW's rural pricing proposals

WaterNSW's pricing proposal preparation process has incorporated a wide array of feedback from over 2,500 diverse stakeholders across NSW. Starting with 'big sky' thinking, then linking outcomes to a series of investment proposals submitted to the Water Working Groups, to the consideration of how to measure the outcomes over the 2025 Determination period.

Prior consultations and customer surveys informed the initial discussions with WaterNSW's Customer Advisory Groups. Their nominated outcomes were assessed alongside the much broader outcomes produced by an open community survey, and discussions with water groups across the state. Twenty-two refined investment proposals from WaterNSW, DCCEEW and NRAR were then interrogated at length in the Water Working Groups with the proposals then passing through an internal prudency checklist by the WAMC agencies.

The nominated level of expenditure informed our business plans in a process that closely accounted for customer and community views. Some proposals were not pursued due to consensus amongst the groups and lack of support. Other important inputs for WaterNSW and the other WAMC agencies included regulatory and legislative requirements.

In the November 2023 Water Working Groups meetings, the level of expenditure in 11 WaterNSW bulk water delivery investment proposals were tested, along with asset maintenance investments for each valley. A further investment proposal relating to technology investments to optimise asset management activities was tested in February 2024, and another in May 2024. The median position of the participants, in the main, landed in the 'do something' level of expenditure for most of the proposals. Two of the proposals – net zero investments and extending call centre hours – garnered a median position of 'do nothing'.

Attachment 3 outlines how the outcomes from the engagement process have been reflected more broadly into WaterNSW's plans for the future and in this pricing proposal.

Engagement with Sydney Water

WaterNSW and Sydney Water enjoy a close, collaborative and mature working relationship allowing WaterNSW to deliver the right level of service to one of its largest customers. Engagement with Sydney Water is embedded and is an intrinsic part of WaterNSW's daily decision-making process to ensure the services we provide are meeting their needs to protect the catchment and supply the best quality water to their customers, Sydney residents. This engagement on the delivery of services is evidenced by the cadence of regular meetings held across multiple sectors of the business including on daily operations, numerous infrastructure projects, asset maintenance and catchment protection.

WaterNSW and Sydney Water convene fortnightly working group meetings to support the Department in implementing the Greater Sydney Water Strategy (GSWS). Our respective Long-Term Capital and Operational Plans (LTCOP) support the outcomes and priority actions of the Greater Sydney Water Strategy.

Additionally, there are recurring and targeted meetings between Sydney Water and WaterNSW to support the various strategic planning activities including supply augmentation and resilience planning, annual review of the Greater Sydney Drought Response Plan and update of our respective Long-Term Capital and Operational Plans.

We also discuss significant projects where both businesses interact, for example, Prospect Water Filtration Plant upgrades, recreational proposals, environmental flows (eFlows) and dam resilience projects at Warragamba Dam, and augmenting Prospect Reservoir with highly treated recycled water.

Below are some of our key processes where we formally engage with Sydney Water:

- **Water Sector Leaders Group**: Oversight and coordination of water policy and delivery of key recommendations and actions contained in the NSW Water Strategy and Greater Sydney Water Strategy, through Chief Executive Officer and Managing Director participation in a Department (DCCEEW) and NSW Treasury chaired 'Water Sector Leaders' forum.
- **Strategic Liaison Group** (SLG) is held quarterly. Its members include the CEOs of both organisations, along with the Chief Health Officer and senior experts from NSW Health, to ensure all agencies are working collaboratively on key strategic priorities.
- **Joint Operation Group** (JOG) which supports the Strategic Liaison Group and meets every quarter, and also includes NSW Health.
- **Senior Managers working group** is held fortnightly. Its members include WaterNSW and Sydney Water and supports the outcomes from the SLG, focusing on key operational and project delivery components.
- **Catchment to Customer risk assessment**: We have a joint agreed process to assess risk relating to water quality, this includes a working group that meets regularly (every one to two months) to review hazards and emerging risk and undertaking reoccurring risk reviews for each supply node (approximately every five years, or when significant changes occur). We jointly report to the Strategic Liaison Group on this work every year.
- **Research**: Sydney Water is a key stakeholder in the development of our research strategy, and we have identified key research areas where we collaborate to deliver a number of projects. We previously undertook joint research group meetings, noting these are currently on hold, and we are looking to re-establish these meetings in 2024-2025. This is also reportes to the Senior Leadership Group every year.
- **Modelling**: WaterNSW provides ongoing input into Sydney Water supply augmentation planning by assessing system yield utilising our WATHNET model, and we are completing an Integrated Water Quality Model (combining catchment and reservoir models) that will support long-term strategic planning considering both water quality and quantity for the Greater Sydney water supply system. We also have operational models to inform risk to water quality during incidents.

- **Sydney Water and WaterNSW Executive Forum for Collaboration on the IPART Pricing Proposal** is convened monthly by our Executive Manager of Strategy and Performance to ensure that we are meeting our strategic engagement objectives and providing an update about the upcoming activities to support this collaborative effort and discuss key matters for the 2025 pricing proposals, including Sydney Water's requirements as a major customer of WaterNSW.
- Regular (monthly) meetings of **senior WaterNSW and Sydney Water economic regulatory employees** to discuss matters pertaining to the development of the respective pricing proposals.
- **Interagency Committee** for the Warragamba Dam Resilience and Warragamba Environmental Flows projects meets regularly. Members include representatives from WaterNSW, NSW DCCEEW, the Department of Planning, Housing and Infrastructure, Infrastructure NSW, NSW Treasury and NSW Reconstruction Authority. The representatives act as conduits for their respective organisations and are integral to delivering high quality and effective forward planning for such important initiatives.
- Sydney Water and WaterNSW's respective **Water Planning and Delivery** teams, Maintenance and Operations teams and Project Teams meet, often daily, regarding the source of water on a particular day, water quality risk management, site visits and water sampling at Warragamba Dam and when either group is embarking on capital works to ensure the perspectives of both organisations are considered to deliver better outcomes.
- WaterNSW Operations also meets regularly with Sydney Water to review **system operations**, and regarding processes in place around **incident response** to operational protocols.

Through this engagement, Sydney Water identified the following key issues for the upcoming Greater Sydney bulk water review:

- **WaterNSW's costs represent around 8% of Sydney Water's cost base**. It is important that WaterNSW does all it can to reduce its costs to lessen the impact of price increases on Sydney Water's end customers.
- **Several parcels of work are contained in the forecast capital programs of WaterNSW and Sydney Water that require joint involvement to deliver the projects**. Close coordination in the planning and operational phases of these projects is required to ensure only the highest priority projects are undertaken and at the lowest sustainable cost for customers.
- **There was consensus that volume risk is a key issue for both organisations** that needs to be addressed through a combination of tariff structures and the form of control, though the two firms propose slightly different approaches to managing this risk: WaterNSW is proposing a revenue cap (with a 2% side constraint for Greater Sydney), while Sydney Water is proposing a change to remove any constraints around the operation of the demand volatility adjustment mechanism. These different approaches reflect that:
    - Sydney Water currently has a demand volatility adjustment mechanism as part of its regulatory framework, requiring it to track and adjust for differences between forecast and actual water volumes (albeit with a +/- 5% 'deadband'), whereas WaterNSW does not.
    - WaterNSW has engaged widely with customers across its customer base on their preferred form of control and – based on this engagement – is proposing a revenue cap to address volume risk. WaterNSW considers that any revenue cap should apply across both its bulk water determinations: Rural Valleys and Greater Sydney.
- There was agreement that both organisations should **continue to work closely to update the Long-Term Capital and Operational Plans** to reflect the forward plans identified during the current determination process.

Close collaboration between WaterNSW and Sydney Water occurs to put downward pressure on costs and includes working together in the development and implementation of the Greater Sydney Water Strategy, the Greater Sydney Drought Response Plan and Long-Term Capital and Operating Plans.

4. Customer outcomes and developing a performance scorecard

4.1 Customer outcomes

Customer outcomes were drawn from thousands of conversations:

- The 128 outcomes that were nominated by the Customer Advisory Groups are detailed in our Final Engagement Summary report and the Phase 2 report.
- Wider customer and community engagement including Water Working Groups, feedback from Water User groups, larger customers and online surveys.

There was strong alignment in most conversations about the strongest, or priority outcomes. Based on these iterative conversations, WaterNSW proposes the following six customer outcomes:

Outcome 1 – WaterNSW will maintain downward pressure on costs to support customer affordability.

Outcome 2 – WaterNSW will provide secure, reliable water delivery.

Outcome 3 – WaterNSW will be open and transparent (about customer charges and WNSW expenditure).

Outcome 4 – WaterNSW will drive sustainable water and land management.

Outcome 5 – WaterNSW will provide customer and community access to data and information.

Outcome 6 – WaterNSW will provide good customer experiences (enabling our customers to run their businesses).

Outcome 1 - Maintain downward pressure on costs to support customer affordability

WaterNSW is vigilant with its costs and revenue, to slow the increase in customer bills through prudent planning, efficiency measures, investments, and finding other sources of revenue. It focuses on supporting the ability of smaller farms to operate, creating regional community diversity and a diversity of produce.

WaterNSW commenced a cost transformation program in the lead up to the price proposal process. This wide-ranging outcome was then supported by many of WaterNSW's investment proposals and the level of service that was then selected, seeking to drive efficiencies in WaterNSW's business operations that reduce the rate of cost increases to customers over time.

This outcome covers improved transparency of costs and pricing, rethinking cost sharing and price tariffs. Reforms to pricing structures address WaterNSW's cost recovery requirements as a water business, whilst also being at the heart of the challenges many customers face. Acknowledging that WaterNSW must do as much as it can to relieve the cost pressures on customers, efficiencies gained across the manifold parts of the business will be critical and time sensitive for many smaller customers.

Outcome 2 - Provide secure, reliable water delivery

WaterNSW makes its management systems more robust, both physically and digitally, to ensure its essential water delivery functions are guaranteed. This outcome is supported by wide ranging investments to maintain and improve water delivery systems, data management, worker safety and cybersecurity to enable water to be delivered when and where it is needed reliably.

Assurance of the delivery of allocations, an understanding of the delivery rules, accurate and flexible metering, and the costs involved with delivery and infrastructure are primary components of this outcome. These are the core operational concerns regarding WaterNSW as a deliverer of water.

Outcome 3 - Be open and transparent (customer charges and WaterNSW expenditure)

Customers expect transparency of costs and pricing on their bills, so too customers expect WaterNSW to be transparent about investment costs in the system that are funded by customer charges. WaterNSW will be transparent in itemising bills and providing clear information on pass-through charges. We will also be transparent about our future plans and expenditures so our customers can understand how customer charges are spent and can better plan their bills and operations.

WaterNSW will improve transparency in financial and operational information in ways that provide useful oversight of where customer's money goes. This is supported by more robust expenditure reporting and itemised bills.

Outcome 4 – Drive sustainable water and land management

WaterNSW is a good neighbour and acts responsibly with respect to renewable energy investments, environmental flows, First Nations commitments and stewardship of its lands and water. Ranging from drought management and planning to recovery from flood events, sustainable water and land management encompasses the preservation of quality water for customers, the community and the environment.

Water quality is critical to this outcome. This outcome led to investments in bolstering pest and weed management, and bushfire management on WaterNSW lands, to investments in renewables that work towards NSW's net zero by 2050 commitments.

Outcome 5 - Provide easy customer and community access to data and information

WaterNSW provides easy and transparent access to information through an improved and consolidated source of truth, and more customer service resources to access this. WaterNSW investments to bolster customer experiences including ongoing consolidation of information and digital services into a 'single source of truth', improving WaterInsights, providing easier, faster access to relevant information, and investing more in local engagement. The modelling, datasets, and data management regimes across water agencies underpin customer-relevant information and is critical to this outcome.

Outcome 6 - Provide good customer experiences (enabling our customers to run their businesses)

WaterNSW enables customers by ensuring their data is secure, communicating operations-relevant events such as planned maintenance, and bolsters its customer services to ensure customer and

stakeholder businesses can operate smoothly. Similar to Outcome 5, WaterNSW works to ensure customer businesses have intuitive, plain English and responsive customer services available to them through improved digital services, such as its online portal. Good customer experiences extend to proactively assisting with the resolution of confusion regarding agency roles and the complexity of rules. Customer information and educative tools, clearer distinctions between the WAMC agencies and who to go to for help are major customer goals.

Summary of the outcomes adopted for 2025-2030

The outcomes adopted by WaterNSW were led by customer and community thinking. They achieve a range of services and activities to support the needs of the environment, customer and community within a limited budget. The following table details the overlap for customer, community and environmental outcomes within these customer outcomes.

Table 13 – Matrix reflecting community, environmental and customer outcomes

Outcome	Customer	Environment	Community
Outcome 1 WaterNSW will maintain downward pressure on costs to support customer affordability	✓		
Outcome 2 WaterNSW will provide secure and reliable water delivery	✓	✓	✓
Outcome 3 WaterNSW will be open and transparent (about customer charges and WaterNSW expenditure)	✓		
Outcome 4 WaterNSW will drive sustainable water and land management	✓	✓	✓
Outcome 5 WaterNSW will provide customer and community access to data and information	✓		✓
Outcome 6 WaterNSW will provide good customer experiences (enabling out customers to run their businesses)	✓		✓

4.2 Developing a scorecard to measure customer outcomes

In May 2024, Water Working Group participants were asked to provide feedback on how WaterNSW should measure its performance and report back to the community. For ease of discussion, a straw person scorecard with possible measurements and metrics was presented for each outcome.

The groups broadly agreed with much of the straw person, with additional suggestions or important changes in data incorporated.

The following general scorecard 'principles' were raised by the water working groups:

- The scorecard should not create an additional cost burden for WaterNSW – any dashboard should be a simple format and use wherever possible the data they already have.
- It would be more appropriate in reporting to note the exceptions – where all the construction agreements or milestones have not been achieved or where a negative financial event has occurred.
- Consider reporting on significant issues that will affect the 2025-2030 price period.
- WaterNSW should publish metric information to provide high-level snapshots through a website dashboard – and tell people in the media when it's updated.
- WaterNSW should be careful with satisfaction surveys – customers are at a saturation point with surveys. The use of audio files or 'no-fuss' explanatory video content is also useful to customers (a trial of this in the Water Working Groups was positively received).

As a result, in June 2024 WaterNSW modified both its outcomes, and the metrics used to measure them. The final customer and community-led outcomes and metrics are detailed in Attachment 4 Customer Outcomes and Performance Measures and summarised in the table below.

Table 14 – Proposed customer outcomes and performance measures

Outcome 1: WaterNSW will maintain downward pressure on costs to support customer affordability

Agreed activities to support achievement of this outcome:
• Report on our financial performance against the IPART-determined regulatory outcomes, on a valley-specific basis, in the following areas:
  • operating expenditure each year
  • capital expenditure each year, including highlighting any variability from allocations
  • material changes to plans for capital projects by valley, and how we have pro-actively engaged with customers on major expenditure charges prior to finalising decisions, to keep them informed.
• Information for customers in hardship is clearly displayed and readily available.
Our performance measures:
• Report on our performance against the efficiency targets proposed by WaterNSW (which is 1% compounding operating cost savings per annum).

Outcome 2: WaterNSW will provide secure and reliable water delivery

Our performance measures:

Metrics regarding releasing water

- Meet the target to release 99% of customers' water orders within one day of the scheduled day of release. (OL)
- Meet the target to reschedule 100% of water orders in consultation with an affected customer within one day.
- Report operational water losses by valley (in both volumes and percentages). We aim for no more than 3% operational water losses. (OL)
- Service interruption target is met with 95% of affected rural valley customers notified no less than seven days before Water NSW ceases to, or becomes unable to, release water. (OL)
- Avoid 100% of water quality incidents (non-compliance with our water quality management system) for all raw water supplied for the final end use as drinking water. (OL)
- Report on the progress against delivery of the maintenance plan – a simple progress metric/ traffic light, by valley.

Our performance measures:

Metrics regarding interruptions to water supply to customers

- For direct water supply services (for example, Fish River and Sydney Water):
  - Notify affected customers of 100% of planned service interruptions, for example, asset maintenance, all at least seven days before commencement of the interruption. (OL)
  - Notify affected customers for 95% of unplanned service interruptions of the expected rectification time within 24 hours of WaterNSW becoming aware that an interruption has occurred. (OL)
  - Notify customers before rectification time finishes if works will be longer.
- Meet our legislative obligations for cyber protection of data and critical infrastructure annually.

Our performance measures:

Metrics regarding water conservation

- Implement actions according to the Drought Contingency Plans for each valley to conserve water if in drought.
- WaterNSW to develop a website page with a traffic light dashboard to show that these targets have been met, met in part (%), or not met.

Outcome 3: WaterNSW will be open and transparent (about customer charges and WNSW expenditure)

Agreed activities to support achievement of this outcome (expenditure):

- **Financial performance is reported** annually to customers and will include:
  - reporting by valley, and against budget allocations
  - categorisation by expenditure type
  - capital reporting by project and profitability, including major capital project cost variations and reasons why by revenue type, including grants and any Australian Government funding
  - annual dividend paid to the NSW Government
  - Forward plans will be provided on capital projects, identifying where significant valley specific maintenance projects need to implement.

Agreed activities to support achievement of this outcome (customer charges):

- Customer charges are itemised in every bill.
- Customer charges are reported annually to show customers how their fees are spent.

Our performance measures:

- Survey CAG members and their organisation members annually in each valley to determine their satisfaction levels of financial reporting and whether they perceive WaterNSW has been open and transparent regarding customer charges and expenditure.

NOTE: Customer reporting will be in an easy-to-understand format and provided through multiple channels, for example, customer advisory groups, newsletters, website.

Outcome 4: WaterNSW will drive sustainable water and land management

Activity toward achieving this outcome:

WaterNSW is currently in the process of completing an assessment of its managed lands. The assessment will be completed in early 2025 and a program set with baseline data and appropriate targets year-on-year for delivery from July 2025.

Agreed activities to support achievement of this outcome:

- Publish, and report on implementation progress of the 2025-2030 WaterNSW land management plan, once metrics are defined.
  - Provide metrics against targets (to be set) on the hectares of land treated for pests/weeds annually, and for what issue.
- Report on targets set in our climate adaptation plan, including land secured for biodiversity and carbon sequestration.
- In partnership with the Environmental Water Holder, provide transparency of environmental water utilisation by valley.

NOTE: Once targets have been set following the development of the WaterNSW land management plan, reporting will be identified by valley, where possible.

Our performance measure:

- Once program, baseline and targets are set, report via traffic light dashboard to show that program target have been met, met in part (%), or not met. This information will be made publicly available on our website.

Outcome 5: WaterNSW will provide customer and community access to data and information

Agreed activities toward achievement of this outcome:

Wider community engagement:

- Develop and maintain a strategy for ongoing customer and community engagement.
- Attend field days and events in NSW to increase our reach with customers and communities.
- Attend water user association meetings to hear feedback and to promote the work of WaterNSW.
- Create new opportunities for customers and communities to engage with WaterNSW.
- Work with our CAGs to agree on what local customers and communities require from WaterNSW, and respond accordingly.

Customer-focused information (WaterInsights):

- Actively promote WaterInsights where possible, including:
- regional field days
- through CAGs and membership organisations, including local councils
- water user association meetings
- online communications
- customer newsletters and bills.

Our performance measures:

Metrics regarding wider community engagement:

- Survey customers annually to understand whether they have been provided suitable opportunities for engagement with WaterNSW.
- WaterNSW to record the number of meaningful engagements and to collect qualitative evidence supporting our efforts to invest in more local engagement.

Metrics regarding customer focused information:

- Report usage performance metrics for WaterInsights (portal and app) consisting of increase in total subscriptions
- Baseline: 2024 numbers
  - Target: Year 1 - Target no decrease on baseline
  - Year 2 – 3% Increase on baseline
  - Year 3 – 5% Increase on baseline
  - Year 4 – 8% Increase on baseline
  - Year 5 – 10% Increase on baseline
- Publicly report WaterInsights subscriptions against the targets on our website.

NOTE: Additional customer-focused key performance indicators may be introduced following further analysis.

Outcome 6: WaterNSW will provide good customer experiences (enabling our customers to run their businesses)

Agreed activities to support achievement of this outcome:

- Demonstrate how feedback has informed the establishment of the customer and community engagement policy. (OL)
- Identify and publish the proportion of problems solved by call centre on first call (first contact resolution) with a target metric of 80%.
- Report on data trends by topic through the complaints and compliments register for customer services.

Our performance measures:

Metrics regarding our early warning system

- 100% of persons registered for advance notifications are notified in accordance with the early warning system. (OL)

Metrics regarding the customer portal

- Report usage performance metrics for the Customer Portal on:
  - increase in total subscriptions to Customer Portal
  - increase in statistics on website traffic (captured by Google Analytics)
  - increase in number of downloads.

Metrics regarding water trading

- Approve or reject no less than 90% of complying trade applications for temporary trades within the State within five business days of Water NSW's receipt of the application. (OL)
- Approve or reject no less than 90% of complying trade applications for interstate temporary trades (except to South Australia) within 10 business days of Water NSW's receipt of the application. (OL)
- Approve or reject no less than 90% of complying trade applications for interstate temporary trades to South Australia within 20 business days of Water NSW's receipt of the application. (OL)
- Contact at least 95% of customers who place a non-complying trade application to rectify that application within five business days. (OL)

Metrics regarding data security

- Notify customers within 72 hours if there is a notifiable data breach of their personal information, in line with legislative obligations.

Metrics regarding customer experience:

- WaterNSW participates in an annual Voice of Customer Insights Report containing four Key Performance Indicators (KPIs) against which we measure and benchmark ourselves:
- Easy to do business with
- Trustworthy
- Provides valuable service
- Deliver water, when and where it matters.
- WaterNSW to remain within the Target Zone for each KPI throughout the determination period and report annually on our website.

A standard proposal

We consider that our approach to engagement meets IPART's assessment of a 'standard' proposal relating to the 'customer' element of (and an overall self-assessment under) IPART's grading rubric. This is discussed further in Attachment 2 and Appendix 2, pages 118 - 129.

Part 2

How we will deliver these outcomes

WaterNSW

PART 2

How we will deliver these outcomes

This part outlines how WaterNSW proposes to deliver the outcomes we have committed to.

- Our management's role in delivering customer and government outcomes in an efficient manner (**Management**)
- How we propose to manage and allocate risks, including how we have accepted risks on behalf of customers (**Risk**)
- Details of our proposed operating expenditure that includes an ongoing commitment to deliver efficiency savings to customers (**Operating expenditure**)
- Details of our proposed capital expenditure program, which is designed to ensure that customer outcomes are delivered while managing uncertainty and balancing risk (**Capital expenditure**)
- Our proposed weighted average cost of capital – a key input to our proposed revenue requirement and customer prices (**Rate of return**).

5. Management's role in delivering outcomes

Our Board and Executive Leadership Team (ELT), which comprises the Chief Executive Officer (CEO) and all Executive Managers, have demonstrated ownership of, and commitment to, the pricing proposal and its outcomes through their guidance, review and challenge over the past two-and-a-half years.

The Board played an active role during the proposal development and challenge process, through both its involvement in IPART's early engagement process and regular briefings as part of a quarterly Board Sub-Committee as well as regular monthly Board updates.

Our CEO led fortnightly discussions and monthly workshops at ELT meetings to oversee the development of the submission and challenged Management's proposals from inception through the customer and community engagement process.

Robust Board and ELT reviews and challenges have enabled WaterNSW to achieve several outcomes:

- Defer **$860 million** in capital projects which otherwise had a strong case for inclusion on prudency grounds, noting this has resulted in WaterNSW taking on additional operational and financial risk.
- Keep our controllable operating expenditure as low as possible while supporting growing regulatory obligations and maintenance needs.
- Propose an almost **$18 million per annum reduction** – to put downward pressure on the costs we can control, we needed to change the way we operated to become a leaner, more efficient, more agile and higher performing business – together with a greater regional leadership presence. Our cost transformation journey has resulted in **$89 million** in efficiencies

over the 2025 Determination as a direct result of the savings in addition to the Base-Trend-Step adjustments discussed in Section 9.

- Propose a **cumulative efficiency target of 1% of total operating expenditure** per annum to ensure that customers continue to receive benefit from our transformation program over the next five years and to provide a strong incentive on WaterNSW to continue to find productivity improvements. This, combined with savings of $2.3 million in 2024-25 provides an additional $44 million over the upcoming five-year period. The cumulative target aligns with the profile of our cost transformation program that requires up-front investment in many cases, the benefits of which are often realised over time.
- Combined with base year savings, the annual efficiency target leads to combined **savings of $133 million** over the upcoming five-year determination period.

Our Board and ELT challenged the business to take a critical look at the way risk is balanced between WaterNSW and our customers. The result is a more active and critical consideration of risk and uncertainty and the way these impact our revenue building blocks. The key features of our proposal include risks relating to the operations and management of our business, and how those risks impact customers, were comprehensively identified and evaluated with clarity provided around the nature, management and quantification of each risk.

We continue to drive material capital efficiencies in the way we deliver our capital program. Over the 2025 Determination period, we will continue to drive improvements, including increasing the engagement of regionally-based suppliers and contractors, and, where sensible, increasing the level of self-performance, to drive improved efficiency.

We elected to 'smooth' the capital program which has the impact of deferring some capital cost to the end of the pricing period, which reduces the impact on prices and improves deliverability.

We engaged external independent experts to review our investment governance processes and to assist in developing detailed business cases and project justifications to support our proposed capital expenditure program for all major capital projects. We also engaged experienced and highly skilled consultants to assist in our customer engagement, our submission development and to provide assurance about the quality of our proposals and supporting information and compliance with IPART's 3Cs framework, including:

- Strategic communication and advisory firm SECNewgate Australia to help design and deliver an industry-leading customer and community engagement process.
- Deloitte to help guide and review the submission to ensure that the information requirements in IPART's Handbook were met and to support the presentation of our operating expenditure proposal under a Base-Trend-Step framework.
- Water engineering and advisory consultancy Sequana to ensure that our asset and investment processes are best in class and that, when followed, are likely to lead to prudent and efficient expenditure.
- Engineering, design and advisory specialists Aurecon to support the review and confirmation of asset condition, engineering analysis, and option development, informing well informed project estimates.
- Utilities advisory experts URA to support the Board's attestation and to provide specialist advice on the implementation of IPART 3Cs framework drawing on its experience with the IPART and ESCV PREMO frameworks.

Ahead of the 2025 price determination, IPART engaged FTI Consulting to undertake a detailed review of WaterNSW's key business systems and processes. In its final report, FTI found that:

"Based on our review, WaterNSW's systems and processes appear to be appropriate and fit for purpose, and consistent with expectations for a utility organisation such as WaterNSW. The frameworks and processes are also generally supported by well-developed, and relevant and comprehensive guidelines and templates to ensure consistent application and usage... the approach to corporate risk management adopted by WaterNSW, and the supporting documentation sighted in the review, are consistent with good practice as would be expected for a utility business such as WaterNSW". [11]

This finding supports the commitment of the Board and Management to managing risks (and the impact on costs) during the 2025 Determination period. The outcomes of IPART's targeted FTI review should provide confidence to IPART and our customers that our proposed investment programs are prudent and efficient and provide value for money.

6. Managing risk

Our approach to cost and revenue risk management

We have analysed the key risks that could impact the costs of providing services over the determination period, to determine how each is best addressed. We have sought to consider these risks holistically across the 'regulatory compact' and through this determination we are seeking prices and a framework that allow us to efficiently manage and where appropriate share risks with customers. Ultimately, we consider our proposed package represents a fair sharing of risk and is in the long-term interests of customers and the community.

In determining the most appropriate approach to address each risk, we have drawn on the following principles for managing risk.

Table 15 – Principles for managing risk

Allocate risks to the party best placed to manage them - a balanced approach to ensure sharing of risk between WaterNSW, government and customers)
Be fair – retaining risks with high uncertainty and maintaining appropriate incentives for WaterNSW to manage risks within their control
Risk management should not jeopardise public health or the environment, with specific emphasis on ageing infrastructure investment
Be long-term focused
Promote customer value

[11] FTI Consulting 13 December 2023 WaterNSW Systems and Process Review – Independent Pricing and Regulatory Tribunal - Final report, page 6

We have approached the management of risks for the 2025 Determination period in a holistic manner that draws on the mechanisms outlined in the 3Cs Handbook. This framework summarises our principles and approach to:

1. Ensuring risks associated with our proposal are identified and quantified.
2. Identifying the mechanisms to manage those risks.
3. Guiding how risks should be allocated between customers and WaterNSW.

Reducing the allocation of risks to customers

WaterNSW proposes to apply IPART's key risk management mechanisms under IPART's 3Cs regulatory approach for unforeseen costs that arise during the determination period (IPART Water Regulation Handbook, July 2023) as outlined below.

- **Cost pass-throughs**: When there is a known, material cost that the business cannot control, a cost pass-through may be included in the determination. If costs are incurred, the business may be able to pass these costs through to customers within the determination period. IPARTs Water Regulation Handbook outlines six principles that need to be demonstrated in proposing a cost pass-through. Our proposed cost pass-throughs are in addition to the BRC and MDBA pass-through charges as set out in Attachments 12 and 16, respectively.
- **True-ups**: A true-up allows for the recovery of 'material' cost changes at the beginning of the next determination period from customers. The costs that the business will incur can then be recovered from customers in the following period.
- **Targeted reviews and letters of comfort**: These are mechanisms to provide additional comfort in proceeding with new projects/spending while waiting for an IPART review.
- **Replacement of the price determination (full or partial)**: IPART may agree to replace a determination (partially or completely) where the ability to deliver services is materially affected, and a business cannot wait for a true-up of efficient costs, and a cost pass-through has not already been set.

Targeted reviews, a letter of comfort, and a full or partial replacement of the determination are all useful mechanisms that may be sought by WaterNSW during the regulatory period, noting the specific circumstances when each would be invoked are generally impractical (if not impossible) to identify *ex ante*.

WaterNSW has taken on considerable risk in providing regulated services in a manner that balances operational and financial risk with outcomes for customers. While our approach goes some way to addressing unforeseen risks, or addressing risks where the costs cannot be readily forecast, we support and have drawn on IPART's framework for risk management that draws on cost pass-throughs, true-ups, letters of comfort and or partial or full replacement of the determination in establishing a fair sharing of risk between WaterNSW and our customers.

Our proposed approach to managing cost and revenue risk is outlined below.

Figure 31 – Risk management and how we address major risks

Category	Risks	Impact - cost or revenue?	Mechanism	Risk allocation
Systematic risk	Risks that cannot be eliminated through diversification e.g. macroeconomic factors impacting rate of return / WACC	Cost	**WACC / cost of debt true-up**	Business
Business-specific risk	Employee, contractor and public safety in relation to operating and maintenance, breach of licence, equipment failure	Both	**Cost allowance** (to meet good industry practice – complying w/ licence conditions) Self-insured to deductible limit ($10K per claim event)	Business
	Natural disasters, major asset failure	Both	**Cost allowance** (insurance)	Business (via insurers)
	Water usage compared with regulatory forecasts	Revenue	**Cost reflective tariff structures / Revenue Cap**	Shared
	Insurance cap/credit/coverage event regulatory & service standards/tax changes	Cost	**General cost pass through**	Customers
	Movements in annual energy prices Shoalhaven transfer scheme costs	Cost	**Nominated cost pass throughs**	Customers
	New projects/spending driven by ongoing customer engagement	Both	**Targeted reviews / letter of comfort**	Shared
	Ability to deliver services is materially affected and a true-up not suitable (e.g. Low probability / high consequence events)	Both	**Partial or Full reopener**	Shared

Attachment 27 outlines the basis of WaterNSW's proposed approach to managing risk in more detail in relation to the cost pass-throughs, true-ups and full or partial reopeners identified above.

Cost pass-throughs

In providing regulated services, WaterNSW is exposed to a range of risks that may influence the costs of providing services, or the revenues we receive from providing services. These costs and/or revenues may differ from those assumed by IPART in making its determination. This creates a risk that WaterNSW over or under recovers the efficient cost of providing services, as well as a risk that prices do not reflect the cost of efficiently providing these services.

Cost pass-through mechanisms are a common element of incentive-based regulatory frameworks. They are used to manage the risk associated with external events that occur within a determination period – events that are outside the control of the business but have a material impact on costs and hence the financial position of the firm.

These risks are unable to be adequately managed through internal risk management, insurance or self-insurance. Examples can include natural disasters where insurances may only cover a portion of the total costs of addressing the event.

WaterNSW has applied a framework for cost pass-throughs based on 'nominated' and 'general' events.

Does this pass all risk through to customers?

No. Any change event should pass the threshold test of "*if the event was known at the time of the determination, would the associated costs likely have been included in revenues and prices?*". If yes, then a pass-through is simply a process to incorporate the efficient costs of providing bulk water services if or when the event occurs, rather than forecasting the costs at the start of the period or tracking the costs until the subsequent regulatory period.

Nominated pass-through events

Nominated pass-through events are those where specific activities have been identified, but the costs of the event or its timing cannot be accurately assessed at the time the determination is made. WaterNSW proposes six nominated pass-through events as outlined in Attachment 27.

General pass-through events

General pass-through events are those where activities and associated costs cannot practically be identified at the time of the determination, but the cost impacts are material. Our approach to general cost pass-throughs is detailed in Attachment 27.

True-ups

A true-up allows for the recovery of changes in benchmark or actual costs as relevant at the subsequent determination period. A true-up is appropriate when the costs for an activity are material and outside of the control of WaterNSW and there is risk that including an estimate of costs in customer charges may result in prices that over or under compensate for the costs of the activity. In some cases, the true-ups rely on other regulators' decisions and or market data. [10]

Full or partial reopeners

Replacement of the price determination (full or partial) is an option whereby IPART may agree to replace a determination (partially or completely) where the ability to deliver services is materially affected, and a business cannot wait for a true-up of efficient costs, and a cost pass-through has not already been set.

WaterNSW will only seek a full or partial reopener during the determination period if an event, or a combination of events, impacts on our ability to deliver services and or the financial consequences are such that it is not possible to wait for the 2030 Determination. Events that may be suitable for a full or partial reopener include:

- the exit or significant reduction (that is, 50% or greater change in historic water usage) of a large customer (including, but not limited to Bayswater and or Mt. Piper power stations) and the appropriate arrangements required to ensure remaining customers and WaterNSW are not unreasonably affected
- a natural disaster or significant climate event
- pandemic event (or other broadscale event constraining movement or logistics – for example, cyber or military events materially impacting imports and/or transport for a protracted time)
- changes to water sharing plans that have or could have a material impact on how the system is managed, water is used or how much water is available within a valley
- the introduction of new regulatory or legislative obligations or changes in service standards not captured in other pass-through mechanisms that have a material financial impact.

WaterNSW's proposed approach to managing risk in through cost pass-throughs, true-ups and full or partial reopeners is identified in Figure 32 below and discussed in detail in Attachment 27.

[10] As a cost of debt true-up is applied as part of IPART's standard WACC method, it is not discussed further in this section

Figure 32 – Proposed approach to managing cost risk in the 2025 Determination period

Category	Description	Event
Cost pass throughs	**Nominated events** Specific events where the costs cannot be accurately assessed at the time of the determination	**6 Nominated Events** Shoalhaven Transfers Scheme costs; Chaffey pipeline pumping costs; Warragamba Deep Water Pump Station costs; projects undertaken for Government; Operating Licence amendments; Non-Urban Metering reform costs
	General events Activities and associated costs cannot practically be identified at the time of the determination, but the cost impacts are likely to be material.	**7 General Events** A regulatory change event; a service standard event; a tax change event; an insurance coverage event (costs beyond the insurance cap and beyond the reasonably available insurance cover); an insurer's credit risk event; a natural disaster event and a terrorism event.
True-ups	Recovery of changes in benchmark or actual costs at the subsequent determination. Appropriate when costs are material and outside of the control of WaterNSW	**2 True-ups** Electricity cost true-up / Sydney Desalination Plant volume true-up
Full or partial reopener	Partially or completely replace a determination where the ability to deliver services is materially affected, and a business cannot wait for a true-up of efficient costs, and a cost pass-through has not already been set. To be invoked only as required.	

Reducing the allocation of risks to customers

The table below summarises how WaterNSW has taken on increased risk in order to keep prices lower for our customers.

Table 16 – How we've taken on increased risk to keep prices lower for customers

Area	Mitigating risks for customers
Capital expenditure *Taking on more risk through deferring expenditure*	WaterNSW is conscious of the affordability challenges faced by our customers. As a result, WaterNSW has undertaken extensive prioritisation of our capital program, seeking to balance infrastructure risk, service reliability and affordability. The result is that WaterNSW will continue to maintain a range of assets and/or defer the realisation of other benefits until capital investment can be proposed in the 2030-35 regulatory period. WaterNSW has undertaken a valley-by-valley identification of candidate projects (assets or activities where capital investment requirements have been identified) and prioritised these with consideration of service criticality, projects benefits and costs. The proposed capital program over the 2025-30 determination period is therefore not as high as it otherwise would be had WaterNSW retired all risks by delivering all identified candidate projects. Examples where WaterNSW has chosen to defer expenditure include phasing of Dam Safety Upgrade Offset and fishways over the next two determinations (after consultation with fisheries, resulting in the delivery of improved fish passage at some sites being delayed by a further five years). **The value of candidate projects deferred to the 2030-35 determination period is $860 million.**
Operating expenditure *Operating infrastructure in times of drought*	WaterNSW has excluded forecast operating costs specifically related to the operation of infrastructure during periods of drought. This includes infrastructure such as Shoalhaven transfers and the Chaffey pipeline. WaterNSW has identified these as potential nominated pass-through costs – ensuring that we can maximise water availability for our customers in the event we enter a period of drought, without incorporating these costs into our initial forecast.

Area	Mitigating risks for customers
Operating expenditure *State Water Strategy, the Greater Sydney Water Strategy and valley-specific Regional Water Strategies*	WaterNSW has excluded from its forecasts certain costs associated with assets that are currently being proposed for Government funding of the various water strategies being developed by the DCCEEW, which, if approved and completed within the 2025 Determination period would be transferred to WaterNSW ownership. This includes infrastructure such as the Lostock to Glennies pipeline. The project would connect Lostock and Glennies Creek dams, transferring Lostock inflows that would otherwise be spilled. The project was recommended for evaluation as a long-term water security project in both Infrastructure NSW's State Infrastructure Strategy 2018-2038 and NSW Government's Greater Hunter Regional Water Strategy. The operating costs are forecast to be approximately **$3.5 million per annum** should the project proceed. WaterNSW has identified this (and other potential projects stemming from DCCEEW's strategies) as a potential pass-through cost rather than building these costs into the forecast before confirmation of project approvals.
Operating expenditure *Land management costs*	WaterNSW is proposing an increase in operating costs to enhance its management of its biosecurity, bushfire and public safety risks across its rural holdings. Land management comprises four functional portfolios of work. These are bundled for convenience to generally align with the requirements of the key legislation: fire management, pest and weed management, recreation management and supporting activities. While WaterNSW has proposed an increase in expenditure in this area, planning undertaken by WaterNSW indicates the level of investment may need to be higher in the future. As a result, WaterNSW will continue to manage some residual risks in the short-term to ensure that WaterNSW is able to demonstrate the realised benefits of an initial increase in expenditure, the deliverability of the program and the areas of residual risk that require further investment. During the 2025 Determination period, WaterNSW has proposed a program that is over **$30 million lower** than initial planning forecasts.
Operating expenditure *Insurance*	WaterNSW takes on risk of infrastructure failure up to the level of our insurance deductible ($10,000 per occurrence for Property claims). This approach ensures customers only pay for the reasonable costs of insurance while WaterNSW incurs costs associated with claims up to the insurance deductible. WaterNSW estimates the benefit to customers of this approach is an avoided cost of **$0.06 million** per annum.

As illustrated above, WaterNSW has actively taken on additional risk to help place downward pressure on our costs over the 2025 Determination period in recognition of customers affordability concerns.

7. Proposed regulatory framework

WaterNSW proposes the following features of the regulatory framework to apply to the Rural Valleys and Greater Sydney 2025 determinations:

- a **five-year determination period** spanning from 1 July 2025 to 30 June 2030 (2025 Determination)
- a **building block approach** to calculate WaterNSW notional revenue requirement for regulated bulk water services
- a **revenue cap** as the form of control for Rural Valley and Greater Sydney bulk water services that includes a pricing side constraint of +/- 5% (Rural Valleys) and +/- 2% (Greater Sydney) to help manage pricing volatility for customers
- **risk management arrangements** to ensure a fair sharing of risks with our customers, as discussed in Section 6 above.

Length of determination period

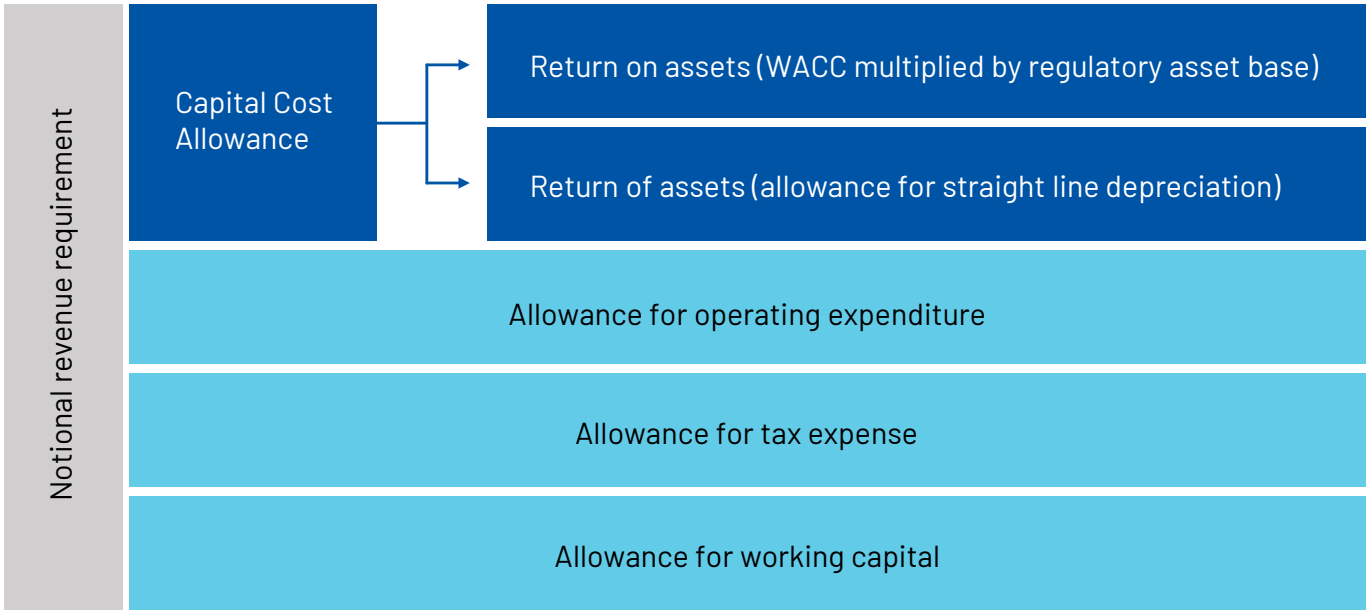
WaterNSW is proposing a determination period of five years, consistent with the default position in IPART's 3Cs framework. A five-year determination period appropriately balances the uncertainty of forecasts over the determination period and the regulatory burden of determinations.

Building block approach

We support IPART's building block approach to establishing revenue requirements and prices for regulated services, noting that it has been streamlined and simplified under IPART's new framework. This involves separately estimating the underlying components (or 'building blocks') of allowed revenue, having regard to projections of efficient capital and operating costs of providing regulated services.

The notional revenue requirement (NRR) is calculated as the sum of the building block components as shown below.

Figure 33 – IPART's building block approach



A revenue cap as the form of control

What is the problem we are trying to solve?

Our current tariff structures generally, and in the rural valleys particularly, do not align to our predominantly fixed cost structure. That is, our costs do not vary materially with changes in customers' water usage. This results in pricing volatility for customers between reviews and revenue volatility for WaterNSW resulting in the real risk that we are not able to recover our efficient costs where actual sales differ from regulatory assumptions. Neither of these outcomes are in the long-term interests of customers. For instance:

- WaterNSW costs that **do not** vary with water usage include water delivery and operational costs, asset management costs, dam safety compliance costs and water infrastructure funding costs.
- WaterNSW costs that **do** vary with water usage only include certain contractor and consultancy costs and certain water quality laboratory costs, chemicals, electricity for pumping, maintenance contractors, water operations planning and delivery costs.

Our analysis suggests that approximately **95% of our costs are fixed**, while only approximately 5% of our costs vary with customer water usage. In other words, our costs and the revenue requirement determined by IPART do not change materially with the amount of water delivered to customers.

As our tariff structure in many rural valleys has a much lower fixed pricing structure (40%), this leads to potentially significant pricing and revenue volatility when actual water usage differs from the forecasts used by IPART to set prices in the determination (such as, the 20-year rolling average of water sales in each valley).

This misalignment, combined with no mechanism to address variations between forecast and actual water usage under the current maximum price caps, can lead to significant pricing volatility for customers between regulatory periods and the risk that WaterNSW is not able to recover its efficient costs.

What are we proposing?

WaterNSW proposes implementing a **revenue cap** as the form of control for the 2025 determinations for Sydney Water in Greater Sydney and for Rural Valley bulk water services for some valleys. Our proposed revenue cap incorporates a side constraint of plus or minus 5% to manage short-term pricing volatility for rural customers and a plus or minus 2% side constraint for Sydney Water. The design features, assessment of the risk sharing, and detailed customer and community feedback is discussed in detail in Attachment 13.

Based on our customer engagement where the issue of volume volatility was discussed over a 12-month period, WaterNSW considers that a revenue cap is preferable to the current price cap as it provides a better opportunity for WaterNSW to recover its efficient costs while also leading to more stability in bill outcomes for our customers over time.

We consider a revenue cap with a side constraint to be the most appropriate form of price control as it represents:

- an appropriate sharing of risk between WaterNSW and our customers
- greater bill stability than offered under a price cap, particularly if a side constraint is incorporated, which our customers generally support
- consistency in the form of control across the NSW water sector, if revenue caps or demand volatility adjustment mechanisms are also approved by IPART for other NSW water utilities (namely, Sydney Water and Hunter Water)

- the potential to mitigate revenue and bill volatility arising from the need to the use the rolling 20-year average approach to water delivery estimation required for the price cap
- the ability to support a higher variable portion of the bill (relative to the price cap), in line with customers' preferences to keep fixed charges low and at current levels in most cases – particularly in times of low water availability
- the form of regulation that is most likely to provide WaterNSW with a reasonable opportunity to recover the efficient costs as determined by IPART.

WaterNSW proposes:

- **For Rural Valleys** – a revenue cap form of control to apply to the following nine Rural Valleys: Border, Gwydir, Hunter, Namoi, Lachlan, Peel, Macquarie, Murray, Murrumbidgee. The revenue cap would be coupled with a +/-5% pricing side constraint.
- **For Greater Sydney** – a revenue cap form of control to apply to Sydney Water (only) with a side constraint of +/-2%.

WaterNSW has engaged with our customers on various pricing design options that generally fall into one of the following two broad categories to address this volume risk:

1. **Price cap with higher fixed charges** – align our tariff structures with our cost structure (closer to 95% fixed) under the current state (namely, in the absence of a revenue cap or other acceptable form of managing volume risk).
2. **Revenue cap** – provide greater customer choice through the introduction of a revenue cap.

The figure below outlines the pricing options we have discussed with our Rural Valley customers.

Figure 34 – Tariff structure options we have considered and engaged on with our customers

Options for a future price structure	**Cost reflective tariff** Charging customers the same way our costs come in. Noting at WaterNSW we have higher fixed charges, we would look for higher fixed charges with customers.	**Current fixed:variable charges** What we have in place currently	**Creating customer choice** Can we put in place a different approach to different customers' needs?
Form of regulation	**Price Cap**	**Current Price Cap**	**Revenue Cap**
Where do these options differ?	• Valley by valley pricing – each valley is individual • Cost reflective – our prices must reflect the costs to run that valley • ***We have*** to change the fixed proportion of charges to better align with our fixed cost structure. Our initial suggestion - increase all valleys to a minimum of 70% in the first instance • This can create high bill volatility for some customers in the short-term due to the transition • We can have bill certainty then after we start • Low risk of WaterNSW taking more money than IPART has said it should • Because our revenue reflects our costs we don't need an extra allowance to deal with changing water volumes.	• Valley by valley pricing • However, this is ***not*** cost reflective • It creates a volatile cash flow for WaterNSW and some customers have volatile water bills • It requires us to include extra revenue to accommodate these changing water volumes • As result, there is a risk of WaterNSW over or under recovering the IPART determined revenue to manage the system	• Valley by valley pricing • We can be flexible with the fixed: variable portions of the bill • We ***don't have*** to change the fixed proportion of charges • Creates greater customer control over their cash flow - they know with greater confidence their total bill each year • Ensures we recover the IPART allowed revenues - no more / no less - by adjusting prices up or down to keep us on track • In the future this can be a more sophisticated offer based on customer type (similar to energy)
Reliance on the accuracy of volume forecasts	Low	High	Low

Currently IPART sets the prices WaterNSW can charge customers through a price cap and has signaled that it will consider a revenue cap under its new pricing framework.

The case for change and deficiencies with the current price capping arrangements

Under a price cap, WaterNSW's ability to recover its efficient costs is inextricably linked to the volume of water used, which is largely outside of our control.

While some of our customers have told us they are in a better position to manage their water usage than we are, there remains an inherent resource (water) availability challenge that extends beyond any party's ability to effectively control or mitigate. The extent of this resource availability challenge is relatively unique to bulk water providers relative to other regulated utilities where the focus is on the efficient delivery and usage patterns by customers of the resource (for example, electricity) rather than its outright scarcity.

This scarcity challenge has a number of implications to ensure allocative and productive efficiency in the utilisation of the water resource (a key consideration for the ACCC) as well as design features for the approach to economic regulation of the delivery infrastructure as discussed below. A key challenge and risk that arises in addressing these problems is to avoid conflating the issues and the appropriate tools for managing them.

As a business with fixed costs of around 95% of our total costs, WaterNSW is at risk of not recovering its efficient costs if water deliveries fall below the usage forecasts set by IPART during the determination period.

While IPART has provided a revenue volatility allowance for when usage differs from the 20-year rolling average in the Rural Valleys, this is insufficient to account for the demand volatility and revenue risk that WaterNSW experiences. IPART provided WaterNSW with $1.23 million ($2020-21) over four years (approximately $300K per annum) to manage the risk that actual water sales are lower than forecast. This amount is $7.6 million less than what WaterNSW proposed.

The current price cap exposes customers and WaterNSW to risks because:

- WaterNSW does not forecast the volume of water sales for the regulatory period, this is done by IPART through the adoption of the 20-year rolling average. WaterNSW is exposed to errors in these forecasts including fluctuations due to climate. WaterNSW acknowledges that it is challenging to forecast water usage for the Rural Valleys but notes that the current price capping arrangements exaggerate the risk of under / over recovery.
- In many of the Rural Valleys, a highly variable tariff (60%) that is linked to water usage is the norm. Because WaterNSW's costs are approximately 90-95% fixed and do not vary materially with customer usage, we are exposed to revenue risk in the variable tariff. IPART's two-part price structure (fixed and variable charges) is set to achieve a fixed-to-variable revenue split of 40:60 for most valleys.
- IPART's usage assumptions are based on a historic 20-year rolling average of water usage for the Rural Valleys. Implicit in this assumption is that water usage will revert to the average or mean. However, the impact of climate change indicates that water usage is broadly declining, thereby placing upward pressure on variable charges. Changes in the 20-year rolling average, particularly if not adjusted for within a regulatory period, have the potential to lead to large 'inter-determination' price shocks for customers. We saw this in 2021 and are seeing this again for the 2025 Determination period.

WaterNSW considers that a price cap has many redeeming qualities, and we would support its continued use if the fixed tariff structures more closely aligned with our underlying cost structures.

Our customers were generally convinced with the logic of pursuing higher fixed charges in order to be a financially sustainable business. However, some were not supportive of the step change in fixed charges under a price cap, particularly in times of drought and low water usage that would be associated with a higher fixed pricing structure.

A revenue cap does not rely on the same increase in the proportion of fixed charges to enable WaterNSW to recover its efficient costs over time while also minimising pricing impacts to customers and managing volume volatility.

Customer and community engagement on revenue caps

In order to better manage the impact of volume volatility on customer prices and our ability to recover our efficient costs, we engaged with our customers to assess the performance of the current price cap form of control.

To address the fundamental gap between our highly fixed cost structure (where around 95% of our costs are fixed and do not vary with water usage) and our highly variable tariff structure (where in many valleys 60% of our tariffs are variable based on water usage) we identified two broad approaches to addressing the volume volatility issue: a price cap form of control with a higher proportion of fixed prices; or a revenue cap with a side constraint and generally maintaining the current proportion of fixed charges.

As outlined in our Final Engagement Report (Appendix 2), in addition to the feedback provided through the Customer Advisory Group discussions, customers were asked to provide their views on the form of control (for example, a revenue cap or a price cap) and tariff structures in a survey of future pricing. This was provided to all 78 customer groups in the CAGs with 29 responses received in total over eight valleys. Demonstrating their comprehension of the information provided, **66% of the CAGs agreed that they could see that there is a problem with how WaterNSW prices are currently set** as a basis for the next five years, with 24% unsure and 10% could not see that there was a problem with how prices are currently set.

86% of respondents were in favour of adopting a revenue cap with a side constraint as their preferred tariff/form of control structure (62% preferred maintaining their existing fixed proportion of tariffs and 24% supporting increasing fixed charges), compared with **only 14% of respondents in favour of a price cap with increased fixed charges**.

Revenue cap design features

WaterNSW's proposed revenue cap includes the following design features:

- IPART sets the total allowed revenue (or annual revenue requirement) for each regulatory year of the 2025 determination(s).
- WaterNSW must comply with the revenue cap by **forecasting sales on an annual basis** for Years 2-5 (the next regulatory year) and setting prices, so the expected revenue is equal to or less than the total revenue allowed. This marks a change from current practice where volumes are set once at the determination and not updated.
- At the end of each regulatory year, WaterNSW will report actual differences to IPART and any over- or under-recovery is deducted from or added to the total revenue in future regulatory years.
- To address customers' preferences for pricing and bill stability, WaterNSW proposes that a **side constraint of 5%** forms a key element of our proposed revenue cap formula.

Revenue caps are a common feature in the regulation of infrastructure businesses. For instance, in 2014 the Australian Energy Regulatory (AER) changed the form of control for electricity network businesses to a revenue cap from a price capping arrangement (a weighted average price cap (WAPC)). The AER found that:

- There were both positive and negative attributes associated with the revenue cap and the WAPC. In determining its preliminary position for a revenue cap, the AER's key conclusion was that **"the benefits from a higher likelihood of recovery of**

efficient costs under a revenue cap outweigh the detriments of within period price instability and weak efficient pricing incentives".[13]

- The current price cap provides a lower likelihood of a network business recovering efficient costs. Under a price cap, revenue varies with the volume of sales, and the **majority of a network business's costs are fixed** and correlated to peak demand. Therefore, if the actual volume of sales is higher than forecast, a Distribution Network Service Provider (DNSP) will recover revenue above efficient costs. This may result in opportunity for a network business to recover revenue above efficient costs.
- The theoretical incentives for efficient pricing provided by the WAPC resulted in little practical benefit in DNSPs' pricing.

In relation to a revenue cap, the AER was concerned with price instability within a regulatory control period caused by the unders and overs account. However, the AER's analysis showed that the magnitude of adjustments in the unders and overs account are minor when compared to other benefits of the approach.

The findings of the AER and the move away from a form of price cap to a revenue cap for energy networks highlights some of the benefits for NSW and WaterNSW's customers of a move to a revenue cap.

The detailed workings of our proposed revenue cap and proposed formulas for its introduction are contained in Attachment 13.

Sharing of risk under a revenue cap

We acknowledge that IPART and WaterNSW are both keen to ensure a fair sharing of risk between customers and WaterNSW with respect to volume volatility. We note IPART's view that moving away from a price cap or moving to higher fixed charges would place more risk on customers and have addressed this in our proposed approach as discussed below.

- From a 'first principle' perspective, the starting point should be "what is the appropriate sharing of risk relating to volume volatility between WaterNSW and its customers?". It is WaterNSW's contention that the current price cap approach with no effective mechanism to manage volume variations places a disproportionate (and in our view unacceptable) level of risk on WaterNSW of not recovering its efficient costs for water usage by customers that is largely outside of our control.
- We are not aware of another regulated utility that faces similar volume volatility risk without a regulatory mechanism to effectively manage such risk.
- We suggest that the relevant question for IPART is, "Does WaterNSW have a reasonable opportunity to recover its efficient costs?" – a primary determinant of whether the long-term interests of customers are likely to be met. We consider that with respect to the current form of control and tariff structures and the high level of volume risk that we face, that the answer is "No".

If IPART were to not approve the introduction of a revenue cap for our Greater Sydney and Rural Valley customers, WaterNSW proposes increasing the fixed proportion of tariffs to more cost-reflective levels, as discussed above.

Our proposal for a revenue cap represents:

- an appropriate sharing of risk between WaterNSW and our customers recognising our role as an infrastructure provider that supplies rather than sells water
- greater bill certainty (when combined with a side constraint) than offered under a price cap, which our customers generally support

[13] See AER Preliminary positions, Framework and approach paper, Ausgrid, Endeavour Energy and Essential Energy, Regulatory control period commencing 1 July 2014. Page 51

- greater consistency in regulatory treatment between WaterNSW and other NSW water utilities, if a revenue cap is the form of control for those businesses.

Our proposed form of control, tariff structures and tariffs have been prepared in direct response to Customer Outcome 6 – WaterNSW will be open and transparent (about customer charges and WaterNSW expenditure).

Application of incentive schemes

In its July 2023 water regulation handbook, IPART identified three incentive schemes that are open to water businesses to propose:

- Efficiency Benefit Sharing Scheme (EBSS).
- Capital Expenditure Sharing Scheme (CESS).
- Outcome Delivery Incentives (ODIs) scheme.

While WaterNSW is doing all it can to place downward pressure on costs through our aggressive cost transformation program and investment governance processes, we are not opting in to these incentive schemes for the upcoming determination as we do not consider that they will deliver greater value for money for our customers at this time. We will reassess whether to opt in to these schemes at the subsequent (in this instance, 2030) determination.

3Cs self-assessment

As part of the new 3Cs framework, each business must self-assess the extent to which its proposal promotes customer value, encourages cost efficiency and is able to be credibly delivered.

In deciding on our grade, we referred to the 12 guiding principles that sit under the 3Cs framework, with particular emphasis on the focus principles agreed during early engagement. We also referred to the guidance provided by IPART in the framework Handbook, and sought the assistance of URA to provide a view as to whether our proposal meets the requirements of a standard proposal.

Grading self-assessment

Reflecting our ambition for this price submission and for our customers, we have pushed ourselves to deliver a high-quality proposal that puts the needs of customers first and delivers value for money. While there are elements of our proposal that we believe would support an 'advanced' or 'leading' proposal, we consider that, on balance, our submission aligns with IPART's '**standard**' grading.

In arriving at a 'standard' self-grading, we note that our proposal delivers value for money for customers. This is evidenced by the extensive customer engagement process we have undertaken to identify and embed customer preferences, and the actions we have taken to reduce costs within our control, including deferring $860 million in capital projects. We have also significantly enhanced our delivery capabilities for our capital program and have proposed $133 million in efficiency savings over the next five years to help keep costs down.

Meeting these challenges in a relatively short timeframe has been a significant organisational achievement. As required by the 3Cs framework, we invested significantly in our customer and community engagement and leveraged external technical experts to ensure our systems and processes meet IPART's heightened expectations. We uniquely face the challenge of developing revenues and prices across 13 valleys, each with its own specific circumstances, which has stretched our internal resources and resulted in the need to leverage external expertise.

We have prepared a pricing proposal that embeds customer preferences, demonstrates thought

leadership and provides value for money in meeting our legislative and customer requirements at lowest sustainable cost. While the costs of meeting our obligations have increased, largely due to factors outside of our control, we are doing what we can to keep costs down.

On balance, and given the challenges we have had to face in implementing the 3Cs framework, our 'standard' grading should be seen as an honest and extensive effort that reflects the uniqueness of our regulated services and delivers value for customers. We have embraced the new 3Cs framework and the opportunity it presents to align with our Corporate Strategy and its key direction of putting customers at the heart of our business.

URA has independently assessed the submission and provided advice to WaterNSW that supports our proposal as 'standard'. We have also drawn on the advice of SECNewgate with respect to our customer and community engagement rating.

A discussion of how our proposal meets the 3Cs principles to support our standard self-assessment is provided in Attachment 2. A summary of our self-assessment against IPART's rubric is provided below. The key features of our approach and offer which support this rating are outlined below.

Customer

We have assessed our ambition against the customer principles of the 3Cs framework and have assigned ourselves a rating between '**standard**' and '**advanced**' based on the following:

- We were consciously customer-centric in the way we delivered our price submission. We moved to a deeper engagement form (towards collaboration), with broader content (towards performance stewardship) and earlier timing (towards an ongoing conversation). Our engagement program was purposeful about matching the engagement aims and approaches to 3Cs and our customers' expectations.
- In choosing appropriate engagement methods, SECNewgate assessed our engagement to be 'standard' and 'advanced', with aspects of 'leading'. The complexity of the task (diverse customer base, pricing structures) demanded the process far exceed a simple two-way communication. They detailed our educative effort to ensure Water Working Group members were equipped for meaningful participation, the sheer effort of travelling over 42,000 kilometres to achieve all these customer and community conversations, the need to keep updating costs in a live process, and iterating around changing views.
- We can evidence a Customer and Community Engagement Strategy for the proposal which was responsive and adaptive to customer needs in its design and employed a range of methods to reach a broad mix of customers and stakeholders. The leading aspect largely consists of our early consultation with the CAGs to inform our strategy development, consultation on cost shares, better coordination between the agencies, the provision of segmented data and greater transparency.
- Customers influence business outcomes – 'advanced' level achieved, with conversations led by WaterNSW Executives leading to clear customer outcomes; iteration of our business plans and levels of investment to provide a clear line of sight between customer outcomes; preferences for levels of investment and corresponding service, deliverables and performance measures, shaped by participants both at the Customer Advisory Groups and Water Working Groups.
- Processes support customer centricity – a 'standard' and 'advanced' result. A deeply iterative process was achieved that, according to SECNewgate, resulted in 'deepening conversations with laudable honesty from WaterNSW and transparent planning.' The outcomes and metrics on how these outcomes will be measured were led by customer conversations.

- Considering what matters most to customers, SECNewgate assessed our engagement to be a combination of 'standard' and 'advanced', with a number of 'leading' attributes. These included our cost transformation process, consideration of cumulative bill impacts, cost share discussions, and a variety of options offered in pricing structures. Commentary from CAGs and Water Working Groups supports this claim.
- For 'engage effectively', SECNewgate determined a 'standard' and 'advanced' response, citing consistent communication and clear demonstration of where participant feedback had landed.
- In view of the criteria to ensure customers drive outcomes SECNewgate suggests WaterNSW is a 'leading' submission, with our priority outcomes drawn from more than 2,500 conversations across the state.
- For performance measures SECNewgate assessed our response to be 'standard' to 'advanced', noting that 16 meetings were held with the Water Working Groups and CAGs to consider and finesse these metrics.
- In identifying community outcomes SECNewgate assessed an 'advanced' result through diversity and geographic spread of community on our Water Working Groups, educating them through the process, and our First Nations Listening Tour to understand the outcomes that mattered to their community.
- In view of the requirement to develop community outcome performance measures, two community outcomes particularly related to community - Outcome 4 : WaterNSW will drive sustainable water and land management and Outcome 5 : WaterNSW will provide customer and community access to data and information.
- In terms of accountability for community outcomes SECNewgate has determined our response to be 'standard'. The WaterNSW Executive's participation in every workshop in the process ensures they understand the commitments and the detail behind them..

Costs

We have assessed our ambition against the cost principles of the 3Cs framework and have assigned ourselves between a '**standard**' and '**advanced**' rating. Key features of our approach and offer which support this rating include the following:

- Our Board and Leadership Team have demonstrated ownership of, and commitment to, the submission and its outcomes via their guidance, review and challenge over the past two and a half years. Our CEO led fortnightly discussions at Executive Leadership Team meetings, comprising all Executive Managers to oversee the development of the submission.
- The Board played an active role during the proposal development through its involvement in IPART's early engagement process and through regular briefings as part of a quarterly Board Sub-Committee and regular Board updates.
- Robust review and challenge sessions have enabled us to:
    - defer **$860 million** in capital projects with a strong case for inclusion on prudency grounds, noting this has resulted in WaterNSW taking on additional operational and financial risk
    - keep our controllable operating expenditure as low as possible while supporting growing regulatory obligations and maintenance needs
    - propose **a $133 million reduction** in our proposed operating expenditures over the next five year due to our cost transformation program, which represents an aggressive 10% reduction compared to our previous operations
    - introduce a **1% per annum cumulative efficiency** target applied to our operating expenditures to pass on to customers the benefit of our cost transformation program and operating model efficiency improvements.

- Our Board and Leadership Team challenged themselves to take a critical look at how we balance risk between ourselves and our customers. The result is a more active and critical consideration of risk and uncertainty and the way these impact our revenue building blocks.
- We continue to drive material capital efficiencies in the way we deliver our capital program. Over the 2025 Determination period, we will continue to drive improvements, including increasing the engagement of regionally based suppliers and contractors, and where sensible, increasing the level of self-performance, to drive improved efficiency.
- We engaged experienced and highly skilled consultants to assist in the development of our submission and provide assurance about the quality of our proposals, including the quality of supporting information relating to forecast costs or projects:
    - Deloitte to help guide and review the submission to ensure that the information requirements in IPART's Handbook were met including the presentation of our operating expenditure proposal under a 'base trend step' framework.
    - Sequana to ensure that our asset and investment processes are best in class and that, when followed, are likely to lead to prudent and efficient expenditure.
    - Aurecon to support the review and confirmation of asset condition, and the development of detailed business cases and project justifications within our proposed capital expenditure program. URA to support the Board's attestation and to provide specialise advice on the 3Cs and PREMO frameworks.

Cumulatively the management (and risk) decisions we have taken deliver close to a **$1 billion** ($2024-25) reduction in our proposed expenditures for the 2025 determinations compared to initial forecasts. These decisions will lead to the revenue requirement and customer prices over the 2025 Determination period being lower than they otherwise would be if not for our actions.

Credibility

We have assessed our ambition against the credibility principles of the 3Cs framework and have assigned a '**standard**' to '**advanced**' rating.

Key features of our approach and offer which support this rating.

Delivery

- Our ability to deliver our capital program has been assessed and challenged by our independent advisors, Management and the Board. We are confident of our ability to deliver the program.
- The significant impact that flooding in 2022 had on our ability to access our infrastructure in many locations and the need to reallocate resources to emergency and operations efforts, combined with significant supply chain challenges, has led to an under-recovery of our capital expenditure compared with the current determinations. Our learnings from these events have positioned us to better respond to significant events over the upcoming period to deliver our investment programs.
- Our proposed performance management approach emphasises transparency in relation to performance and our possible responses to underperformance, which may include consideration of additional funding and/or reprioritisation to address chronic underperformance).
- We have regularly had our financial position reviewed by independent credit ratings agencies. Our pricing proposal would place us in a sound and sustainable financial position moving forward.

Continual improvement

- We have embarked on an ambitious cost transformation journey that will continue to put downward pressure on those costs that we can control. Our pricing proposal reflects significant efficiencies built into our revenue forecasts.
- To put downward pressure on the costs we can control, we needed to change the way we operated to become a leaner, more efficient, more agile and higher-performing business – all while creating a greater regional leadership presence.
- Over the past two years, WaterNSW has permanently removed $19.7 million of operational expenditure from the entire business. This reduction was against a baseline target set in 2022 of $21.6 million.
- Our cost transformation journey has led to $89 million in efficiencies over the 2025 Determination as a direct result of the savings.
- We also propose a cumulative efficiency target of 1% of total operating expenditure per annum that rises to over 5% in 2029-30 to ensure that customers continue to receive benefit from our transformation program over the next five years and to provide a strong incentive on WaterNSW to continue to find productivity improvements. This provides an additional $45 million over the upcoming five-year period. The cumulative target aligns with the profile of our cost transformation program that requires up-front investment in many cases, the benefits of which are often realised over time.
- Combined with base year savings, the cumulative efficiency target leads to combined savings of $133 million over the upcoming five-year determination period.

Regarding capital efficiencies, we have imposed capital efficiency targets tailored to valleys, with $15.7m embedded in our capital forecasts.

- Capital expenditure efficiencies are expected to be delivered by:
    - robust needs and options assessment, ensuring that non-capital solutions are considered
    - value engineering during design development
    - procurement efficiencies through intelligent project packaging that may enhance competition or generate economies of scale or geographic synergies for construction contractors
    - WaterNSW project management efficiencies via allocation of low complexity projects to Regional Delivery teams
- Capital efficiency targets were generated by reducing cost estimates for candidate projects and fishway projects by the efficiency factors that range from 2.5% to 4%. Details are provided in Attachment 9.

Overall grading self-assessment

Drawing on this independent advice and our own analysis, we consider a '**standard**' grading to be an accurate reflection of how WaterNSW currently meets the 12 principles under the new 3Cs framework.

Focus principles

A requirement on WaterNSW when preparing our pricing proposal is to identify 'focus principles' which, if well justified, will be given greater emphasis in IPART's assessments. IPART also requires that we explain how our proposed principles align with customer preferences. Identifying focus principles helps ensure a business delivers on outcomes that provide the best value for customers.

We propose the following focus principles for the 2025 Greater Sydney and Rural Valleys determinations, and outline why each was selected.

Focus Principle 1 – Customer engagement

Are you engaging customers on what's most important to them, making it easy for customers to engage by using a range of approaches to add value?

Selected to recognise the significant focus WaterNSW has placed on engaging with customers in preparing our pricing proposal. We engaged early and collaboratively across the development of our proposal, aiming to genuinely deepen our understanding of our unique and diverse customer base to ensure that our services reflect our communities' priorities and preferences.

Customers and stakeholders have had the opportunity to review and comment on key aspects of our submission – providing insights into customer preferences and shaping our response to key service and regulatory matters.

Focus Principle 2 – Robust costs

How well does your proposal provide quantitative evidence that you will deliver the outcomes preferred by customers at the lowest sustainable cost?

Selected to recognise the significant focus WaterNSW has placed on keeping costs within our control as low as practicable This is to ensure our proposed expenditures are the least cost to achieve our legislative and regulatory obligations and customer preferences at an acceptable level of risk.

Focus Principle 3 – Equitable and efficient cost recovery

Are your proposed tariffs efficient and equitable, and do they appropriately share risks between the business and your customers?

Selected as a focus principle as recurring themes in our engagement were customers' strong views that they should not solely pay for services and activities that have wider community benefits and that our tariff structures appropriately shared risks between the parties.

Focus Principle 4 – Continual improvement

Does the proposal identify shortcomings and areas for future improvement?

Selected as a focus principle to reflect our ongoing commitment to achieve productivity improvements over the determination period to continue to put downward pressure on the costs we can control.

Focus Principle 5 – Delivering

Can you provide assurance that you have the capability and commitment to deliver?

Selected as a focus principle as we understand that customers expect WaterNSW to be accountable and deliver our approved capital and operating expenditures and to demonstrate that we are up to the task.

We have selected five focus principles:

- One customer principle (customer engagement) – ensuring our customers' preferences are reflected in our proposal.
- Two cost principles (robust costs and equitable and efficient cost recovery) – prudent and efficient costs leading the least cost approach to meet our legislative and regulatory obligations and assessing the proportion of costs that customers face.
- Two credibility principles (continual improvement and delivering) – ensuring we drive productivity improvements over the determination period to keep costs down, while we take accountability to deliver what we have proposed.

This includes the emphasis on customer engagement, robust costs and credibility. We consider that this mix of focus principles reflects the priorities we've heard from our customers through our engagement process. The focus principles recognise what our customers expect and desire from us as a bulk water service provider.

Blowering Dam

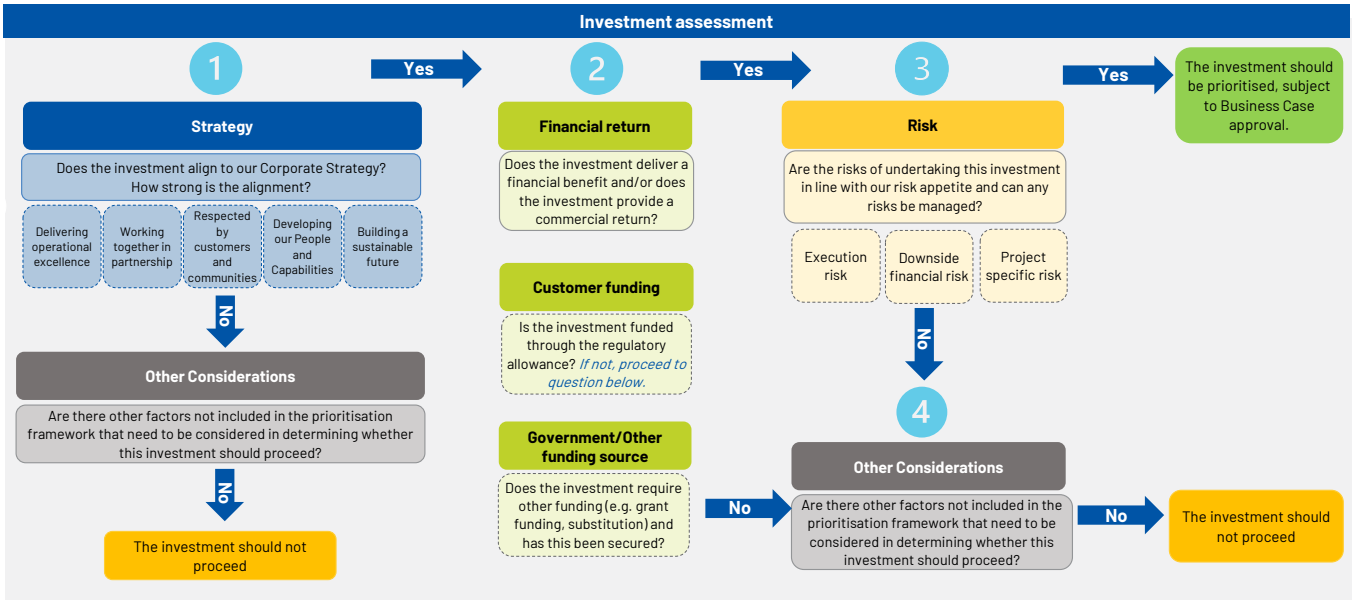
8. Investment prioritisation

Organisation-wide approach to prioritising investments

We have introduced an organisation-wide approach to prioritising our proposed investments at the corporate level. Our approach assesses proposed investments against a set of guiding principles and constraints to support investment decision making and brings transparency to the basis of choices we make as an organisation, irrespective of whether the investment is in infrastructure assets, digital projects or operating activities.

Figure 35 provides a summary of the framework and processes used. It includes consideration of risk as part of the prioritisation process, consistent with the organisation's broader risk assessment framework, and competing needs within each funded area of service.

Figure 35 – Overview of WaterNSW's investment prioritisation framework and processes



Our $3.4 billion investment program over five years is focused on prioritising investment on ageing infrastructure and digital transformation of end-of-life business technology.

WaterNSW continues to invest in renewing or replacing ageing infrastructure and in our transformation into a more customer-engaged and digitally enhanced business through our business transformation program. We remain committed to managing costs in a manner that is transparent, collaborative and relevant to deliver the outcomes our customers demand. The overall investment program is designed to achieve benefits in the following areas:

- Real time data helps customers run their businesses
- Customers' needs are better understood
- Increased self-service
- Better customer experience
- Reduced operating risk
- Renewal of ageing assets
- Reduced operating costs and increased productivity
- Proactive repairs prolong the life of our assets
- Advanced network monitoring
- Better land management
- Emissions tracking
- Reduced water losses
- Adapting to climate change

The approach used for investment prioritisation focuses on:

- aligning prioritised investment with specific elements associated with our corporate strategic goals
- assessing against key organisational constraints that must not be breached, including:
    - specified and agreed customer price outcomes
    - agreed capital structure and dividend expectations
    - maintaining positive net profit after tax as a key outcome required by NSW Treasury and ability to pay forecasted dividends to NSW Treasury
    - financial requirements (including investment grade credit rating constraints) as per our requirements as a State-Owned Corporation
    - relevant deliverability constraints (considering factors such as: risk, likelihood of achieving intended benefits, cost exposures, and market supply factors)
    - NSW Government policy and Statement of Expectations requirements
    - operating within our risk appetite
    - delivering within allowances approved in a regulatory period
    - any other relevant constraints that may be determined and agreed based on the outcomes of customer and stakeholder consultation.

As discussed in the following section, IPART assessed WaterNSW's investment prioritisation as part of its 2023 Systems and Process Review. IPART's consultant, FTI Consulting, indicated that the investment prioritisation framework appears appropriate and fit for purpose for an organisation such as WaterNSW. Its adoption will help guide investment prioritisation as part of the broader annual business planning and budget development process and will further strengthen these processes.

IPART system and process review

Ahead of the 2025 price determination, IPART engaged FTI Consulting to undertake a detailed review of WaterNSW's key business systems and processes that contribute to our:

- decision-making on capital and operating expenditure
- forecasts of its capital works program
- asset and service performance.

In its 13 December 2023 final report on the WaterNSW Systems and Process Review, FTI Consulting stated that:

"Based on our review, WaterNSW's systems and processes appear to be appropriate and fit for purpose, and consistent with expectations for a utility organisation such as WaterNSW. The frameworks and processes are also generally supported by well-developed, and relevant and comprehensive guidelines and templates to ensure consistent application and usage." [12]

Specifically, FTI noted "the approach to corporate risk management adopted by WaterNSW, and the supporting documentation sighted in the review, are consistent with good practice as would be expected for a utility business such as WaterNSW". This finding supports WaterNSW's commitment to managing risks (and its impact on costs) during the 2025 regulatory period.

The outcomes of IPART's targeted FTI review should provide confidence to IPART and our customers that our proposed investment programs are prudent and efficient.

[12] FTI Consulting 13 December 2023 WaterNSW Systems and Process Review – Independent Pricing and Regulatory Tribunal - Final report, page 6

9. Operating expenditure

WaterNSW's operating expenditure forecasts for the 2025 Determination period for Greater Sydney, Rural Valleys and WAMC (WaterNSW only) services is provided according to the Base-Trend-Step approach required by IPART under the 3Cs framework.

When developing our Base-Trend-Step (BTS) forecasts, consideration is given to:

- the appropriate allocation of shared costs categories (for example, corporate costs)
- the efficient base year (net of adjustments and new obligations)
- material operating expenditure risks.

Our operating expenditure forecast is reflective of a real increase in prices, output, efficiency savings, step changes and non-controllable operating expenditure. Our detailed Base-Trend-Step analysis, including our forecasting methodology and our cost allocation methodology, is provided in Attachment 8.

Introduction

WaterNSW has undergone significant transformation in our people and processes necessary to better serve our customers, meet regulatory requirements and manage our costs efficiently in the face of significant cost inflation pressures.

Our transformation is driven by organisational change, legislative change and inflationary pressures as summarised below.

Organisational change

Central to meeting the objectives of IPART's 3Cs framework, WaterNSW has undergone a period of significant organisational change since 2022 with a new operating model and workforce plan. This change ensures we have the skills, capability, and resources to:

- ensure compliance within WaterNSW to new and existing regulations
- implement measures to mitigate risks and maintain operational integrity
- deliver services that meet or exceed customer preferences and needs including the primary work location of senior leaders and customer facing teams
- continuously gather and analyse customer feedback to identify areas for improvement.

In the face of increasing costs and requirements placed on the business, WaterNSW assessed that continuing a business-as-usual approach would not achieve the efficiencies we were seeking and would lead to higher costs and put pressure on service, customer outcomes and customer affordability. Therefore, a new approach was needed.

We embarked on a two-year journey in 2022-23 to introduce a new operating model that would streamline our systems and processes and ensure resourcing levels were at efficient levels to achieve the lowest sustainable cost. This journey resulted in some initial reductions to our operating expenditures through employee departures and unsustainable vacancy rates as a new organisational structure was implemented. This is reflected in the operating expenditures in 2022-23 and 2023-24 being below a sustainable level in our latest actual results.

This has been a cascaded change process which commenced by filling key leadership positions followed by recruiting for their direct reports. We expect 2024-25 will be our first completed year without disruptions such as those caused by

vacancies and open roles. This will put WaterNSW in a strong position to meet our regulatory and legislative obligations and deliver the outcomes our customers demand and the lowest sustainable cost moving forward.

The new operating model resulted in an overall increase in our full time equivalent (FTE) resourcing and salary and wage expenditure. This increased labour is to provide improved service to our customers and support improved outcomes. The overall impact of our transformation was to lower costs below the level had not implemented the deliberate reduction in non-customer facing senior roles. While roles were also added to the structure, there are corresponding cost savings associated with reduced contractor expenses and agency spend.

As discussed below and in Attachment 9, our forecast operating costs would have been significantly higher had it not been for the efficiencies delivered over the past two years. The largest contributor to these savings is the reduction in the number of senior leadership roles, reduced property leasing costs and reductions in contract labour.

Regulatory change

WaterNSW has a multitude of regulatory obligations it must comply with to ensure we operate safely, efficiently, and sustainably, while protecting public health, the environment and customer interests.

IPART has recently conducted an end-of-term review of WaterNSW's Operating Licence 2022-2024, which expired on 30 June 2024. IPART recommended to the Minister a new operating licence for WaterNSW, which came into effect on 1 July 2024. The new operating licence has several new obligations compared to the previous licence that have a substantive effect on costs, including:

- increased scope of the water quality management system (WQMS)
- water quality monitoring enhancements program
- early warning system to provide advanced notification of significant changes to water flow quantity or and quality
- requirements to establish a data management framework
- expansion of both research and education requirements
- establish a new Cooperation Protocol with Fisheries.

Additionally, WaterNSW has identified a number of regulatory obligations in the upcoming determination period which will require programs of work and recurrent operating expenditure to ensure ongoing compliance. These are expanded on in Attachment 22.

Inflationary pressures

Like many other organisations, the macro-economic environment has impacted the cost structure of WaterNSW. Inflation (as measured by the Consumer Price Index (CPI)) has risen by 6.1% in 2021-22, 6.0% in 2022-23, and 3.8% in 2023-24. Inflation has led to rising costs for energy, chemicals, fuel, labour, and insurance and land tax.

Over the 2025 Determination period we expect some of these cost pressures in relation to energy, fuel and chemicals to ease. However, we project the following input costs to increase above the rate of CPI from 2025-2026 onwards (percentages shown below are the expected compound annual growth rates (CAGR) over the next five years):

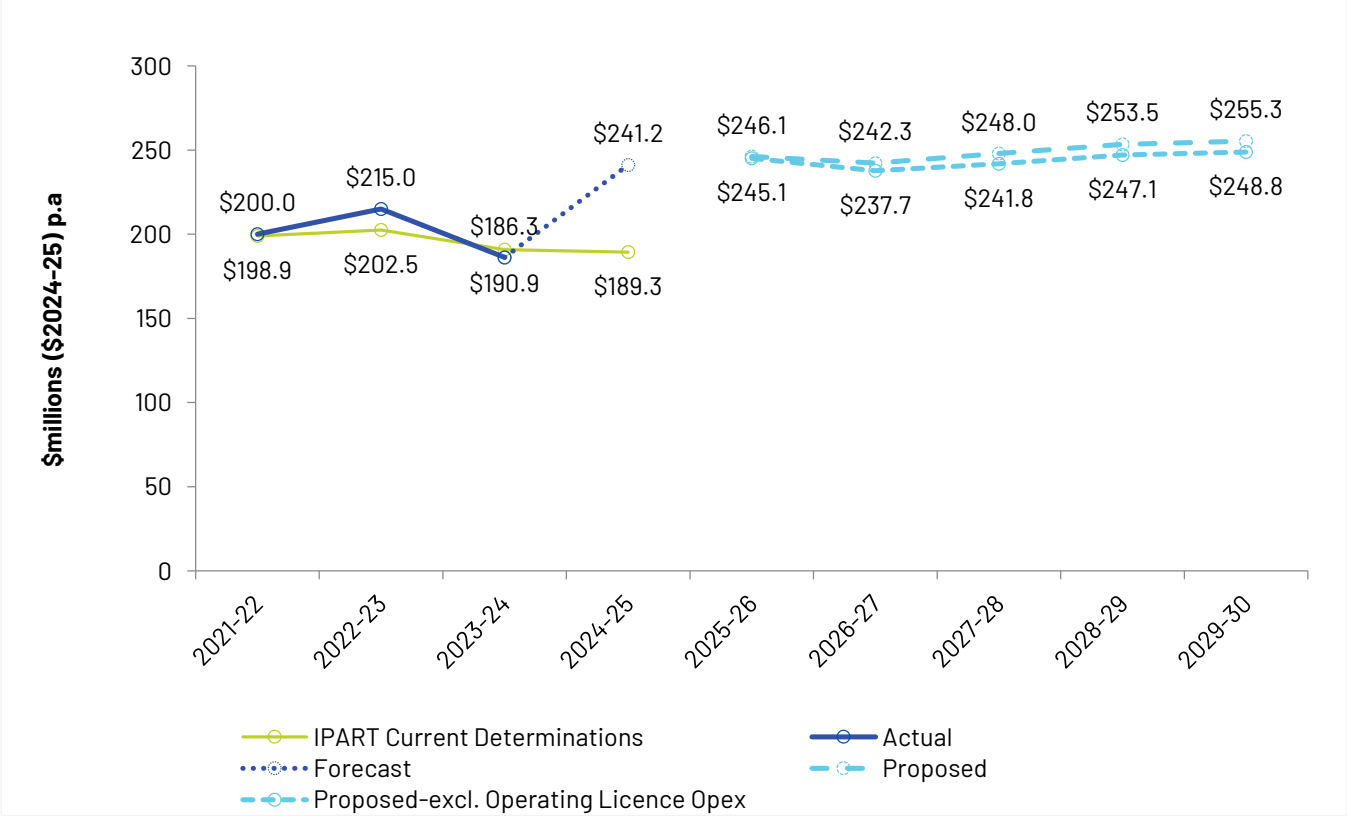
- land taxes due to land valuations (8.37%)
- insurance premiums (7%)
- labour wage costs (1.0%)
- digital software licencing costs and cloud consumption (1.3%).

Though we intend to continue to absorb some of these cost increases through efficiencies in our operations (including procurement), and better management of risks, an estimated compound annual increase of 0.26% above inflation in operating expenditure is projected for each year of the 2025 Determination period.

Operating expenditure summary

WaterNSW's proposed Base-Trend-Step operating expenditure for the 2025 determination period is **$1.2 billion** ($1,245 million), which is a 25.6% increase in real terms compared with our expected operating expenditure for 2020-25 over five years as illustrated in Figure 37 below.

Figure 36 – Actual, allowed and forecast opex for WaterNSW (combined) ($m, $2024-25)



* Note that the IPART 2020 Greater Sydney allowance for 2024-25 equals the 2023-24 value on the basis that the deferral year (2024-25) sets a price path, but IPART has not made a determination on the efficient expenditure allowances for that year. Excludes non-urban metering or costs relating to fee for services.

Our WaterNSW Base-Trend-Step operating expenditure for the 2025 Determination period is shown in Table 17 below and discussed in the following sections.

Table 17 – WaterNSW Base-Trend-Step operating expenditure ($m, $2024-25)

	2022-23 Base Year	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Base	$201.1	$201.1	$201.1	$201.1	$201.1	$201.1	$1,005.5
Base adjustment	$33.6	$33.6	$33.6	$33.6	$33.6	$33.6	$167.8
Adjusted Base	$234.7	$234.7	$234.7	$234.7	$234.7	$234.7	$1,173.3
Trend		$1.8	$2.3	$3.3	$4.8	$5.3	$17.5
Step		$9.6	$5.3	$10.1	$14.0	$15.3	$54.3
Total Opex		**$246.1**	**$242.3**	**$248.0**	**$253.5**	**$255.3**	**$1,245.1**

Efficient Base Year

Our operating expenditure forecast begins with a **2022-23 base year** actual expenditure of **$201.1 million**. To ensure that the base year is representative for forecasting future expenditures, we propose several **adjustments totaling $32.8 million** in each of the next five years. To ensure that the base year is representative for forecasting future expenditures, we propose adjustments for:

- removal of one-time operating expenses incurred during 2023-24 as these are not recurrent expenditure
- added new or increased recurring operating costs up to June 2025
- added new efficiency targets starting with 2024-2025
- the net allocated position of the central overheads pool calculated in accordance with the corporate allocation methodology.

This leads to an **adjusted base year operating expenditure of $234.7 million** for WaterNSW-regulated activities. We have excluded costs associated with the Wentworth to Broken Hill Pipeline, MDBA, unregulated weirs and non-core (that is, unregulated) projects. The key base adjustments are identified in the table below.

Table 18 – Summary of base year adjustments for WaterNSW ($m, $2024-25)

	Total Adjusted Base ($m $2024-25)
Base – 2022-23	**$201.1**
Cost Escalation Factors and Provisions	**$26.3**
Employee Labour Costs	$8.4
Superannuation Obligations	$0.6
Long Service Leave and Annual Leave	$1.5

	Total Adjusted Base ($m $2024-25)
Base – 2022-23	**$201.1**
Insurance Premiums	$0.6
Land Tax	$5.3
Digital Related Costs	$9.8
Operating Model Related Cost Changes	**$24.7**
Efficiency Improvements – Cost Transformation Program	**-$2.4**
Overhead Allocation Adjustment	**-$14.1**
Ongoing Compliance Obligation Costs	**$1.4**
Cold Water Pollution Strategy	$0.8
Flood Modelling	$0.6
Non-Recurrent Expenses	**-$2.3**
Flood Related Costs	-$4.8
Regulatory Submission Costs	$2.5
Total base year adjustments	**$33.6**
Total Adjusted Base – 2024-25	**$234.7**

As discussed in Attachment 8, the most material changes are:

- **Cost escalation factors and provisions** - These relate to inflationary impacts that have occurred between 2023 and 2024-25 (+$26.3 million).
- **Employee and contract labour costs** – These reflect the updated WaterNSW Enterprise Agreement 2023, which took effect in late 2023 and expires in 2026. The total average wage increase was 4.93% in both 2023-24 and 2024-25, comprising a 4% annual increase and a 0.93% increase for progress payments. Non-EA employees received a consistent 4% annual increase.

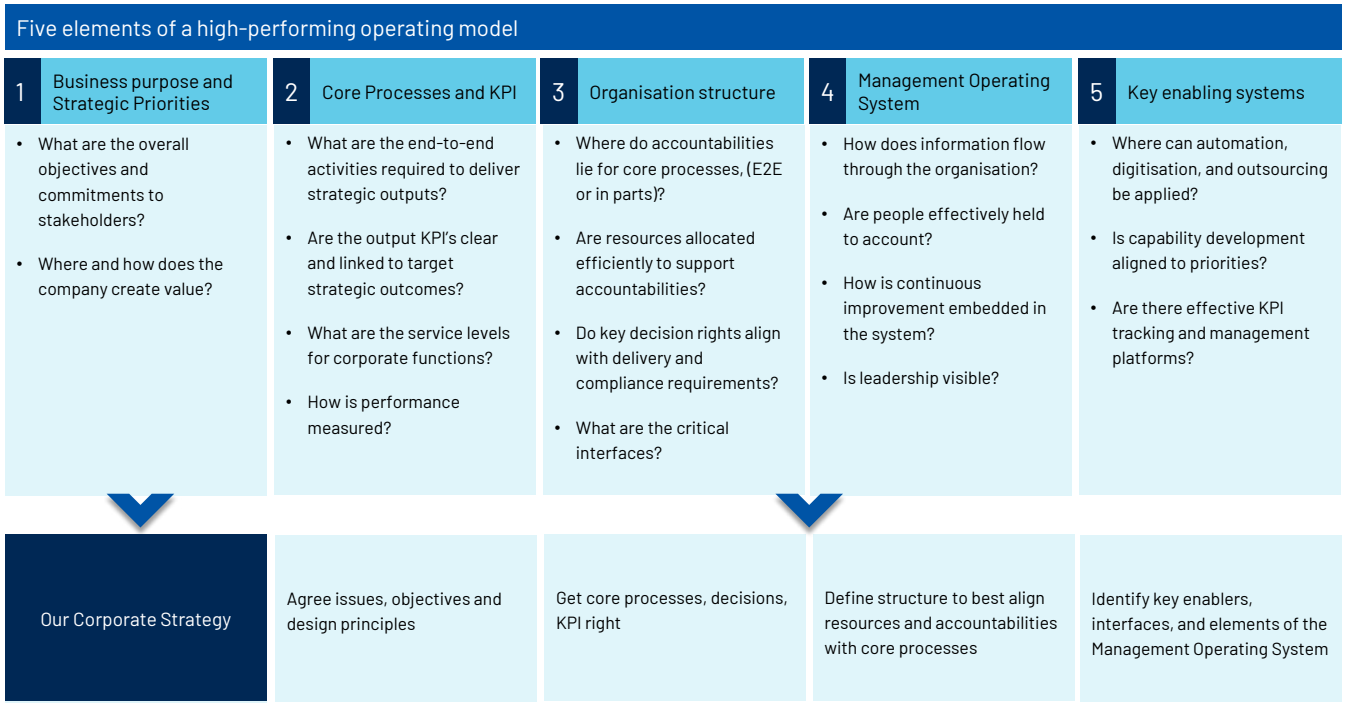
  Additionally, due to changes in Superannuation Guarantee legislation, the costs increased from 10.5% to 11% in 2023-2024 and further increased to 11.5% in 2024-2025. The increment was included in the 4% increase for non-EA employees but was separate for EA employees (+$8.4 million). Superannuation costs have increased in line with the Superannuation Guarantee legislative requirement and are scheduled to increase to 12% on 1 July 2025.
- **Land tax** - There has been a significant increase in the land value of the portfolio valuation of 17% in 2021 and 30% in 2022. This has resulted in a 22% increase in WaterNSW 2023 land tax obligations. Further, WaterNSW has significant holdings of land which have not historically been valued by the Valuer General but which Revenue NSW has advised it will request the Valuer General to value as part of WaterNSW land tax assessment process (+$5.3 million).
- **Operating model related cost changes** - Increased salaries and wages to meet regulatory and legislative obligations (+$24.7 million).
- Partially offsetting these increases are the following **proposed negative adjustments**:
  - **efficiency improvements** arising from our cost transformation program (-$2.4 million)
  - **overhead allocation adjustment** to normalise treatment (-$14.1 million)
  - **flood damage insurance** payout (-$4.8 million).

New operating model

In addition to the items above, WaterNSW is proposing a base adjustment of $24.7 million relating to the implementation of our new operating model. WaterNSW finalised the development of its current Corporate Strategy in early 2021 and a key initiative was to review the operating model and organisational capability across the organisation to ensure there is confidence in delivering the outcomes and objectives of new strategy.

Drawing on advice from a specialist advisory firm, WaterNSW made changes to the organisational structure together with changes to governance mechanisms, processes, and speed of decisions, streamlining of accountabilities and clearer targets and priorities. As discussed in Attachment 8, the objective of the new operating model is illustrated below.

Figure 37 – Five elements of a high-performing operating model



The recommended organisational structure (item 3 in the illustration above) includes changes to, and a reduction of, the number of Executives and senior leaders, to support a new, leaner portfolio structure.

The proposed changes to the operating model comprised five design objectives and six design principles that in combination enabled WaterNSW to deliver on our corporate strategy. The proposed approach to achieving these was to consolidate a number of our current operational, corporate, regulatory and strategy functions into consolidated 'Portfolios'. The recommended organisational structure also supported the creation of a corporate affairs function and re-imagining our ICT functions as a more strategic and focused digital transformation capability for the business.

The new corporate affairs function, among things, has allowed the organisation to be better aligned with IPART 3Cs Framework through engagement with stakeholders throughout the IPART determination process, and to embed engagement into our business-as-usual activities.

An objective of the operating model was to partially offset front-line employee increases by the reductions in senior leader numbers, as well as cost efficiencies through insourcing labour (further details are provided in Attachment 8). This change was also in response to customer preferences and needs. In addition to the restructure, which created several positions that were filled throughout 2023-24, the increase in employee numbers is partially offset by reductions in contractors.

Without the uplift in these areas, we would not have been able to achieve the objectives outlined in the IPART 3Cs handbook.

The base adjustment proposed for operating model changes is $24.7 million of which:

- $10 million is for additional headcount, the details of which are set out in Attachment 8. WaterNSW increased its employee numbers in some functions during the current period to achieve the intended outcomes of the new operating model. The increase in employee numbers was a combination of an increase in resourcing for continual improvement, implementation of augmented management operating systems, and key enabling systems.
- There are other normalisations that increased salary costs that relate to vacancies, investing in closing the gap on critical resources to increase efficiency of delivery, new capabilities to meet legislative and regulatory compliance obligations and improved services (for example new cybersecurity capabilities to deliver SoCI Act compliance & resourcing to support increasing demands from NSW water sector and operating licence obligations).

In addition to the new headcount, there have also been normalisations for the base year that relate to the following items:

- vacancies in the base year that need to be added of $5.0 million
- capability uplift of $1.0 million mostly from the Operations portfolio
- continuous improvement on existing ICT platforms and systems of $3.5 million
- improved accuracy of project salary costings to the core business that has resulted in a reduction in corporate overheads.

An objective of the operating model was to partially offset front-line employee increases by the reductions in senior leader numbers, as well as cost efficiencies through insourcing labour. This change was also in response to customer preferences and needs. In addition to the restructure, which created several positions that were filled throughout 2023-24, the increase in employee numbers is partially offset by reductions in contractors. This is discussed further in Attachment 8.

In addition to the above base year adjustments, WaterNSW notes that it has removed around $18 million in base year costs leading to over **$89 million of savings** in our pricing proposals due to our efficiency savings achieved to date.

Trend costs

In developing our operating expenditure forecasts, we have examined major cost categories to identify, consider and explain trends in major cost categories that underpin our forecasts.

Total trend costs of $17.5 million are proposed over the five-year determination period. This comprises wage increases, insurance premiums and land tax valuations that are partially offset by cost transformation savings of $32.8 million as illustrated in Table 19 below.

The table below reflects WaterNSW's proposed rate of change.

Table 19 – WaterNSW operating expenditure trend (rate of change p.a. above CPI)

Trend change (above CPI)	2025-26	2026-27	2027-28	2028-29	2029-30
Labour	1%	1%	1%	1%	1%
Digital	2.2%	0%	1.1%	1.9%	-4.9%
Insurance	7%	7%	7%	7%	7%
Land tax valuation	8.37%	8.37%	8.37%	8.37%	8.37%
Efficiency improvement	1%	1%	1%	1%	1%
Rate of Change p.a.	**0.18%**	**0.31%**	**0.38%**	**0.53%**	**1.30%**

The rate of change is the cumulative trend (see table below) divided by the adjusted base and reflects the total operational expenditure impact of the trend changes.

Table 20 – Trend costs as part of the 'Base Trend Step' calculation ($m, 2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Labour	$1.2	$2.3	$3.5	$4.6	$5.8	$17.3
Digital	$1.0	$1.0	$1.5	$2.4	$0.0	$6.0
Insurance	$0.8	$1.4	$1.7	$2.1	$2.3	$8.3
Land tax valuation	$1.1	$2.3	$3.6	$5.0	$6.6	$18.6
Efficiency savings	-$2.3	-$4.7	-$7.0	-$9.3	$9.3	-$32.8
Trend total	**$1.8**	**$2.3**	**$3.3**	**$4.8**	**$5.3**	**$17.5**

The following summarises our proposed trend costs:

- **Labour costs** for the forecast period are forecast to change from the base year, against a recent trend low annual growth. Labour costs are a function of price (wages) and quantity (full-time equivalent).

  Wage cost increases are expected to outstrip inflation over the next few years. This is important as approximately 60% of WaterNSW operating expenditure is labour and competition for finding and retaining talent places pressure on labour costs and service delivery.

- **Digital costs** – A significant portion of WaterNSW's digital expenditure is driven by software licenses. The price of these licenses has increased significantly since 2022-23 and is expected to continue rising over the determination period. These increases are largely outside of WaterNSW's control. As a price taker of these services, WaterNSW has leveraged prices negotiated by the NSW Government where possible, such as in the case of Microsoft products. In other cases, we undertake a stringent process to test the market for best value for money offers and the pursuit of longer term contracts for higher discount levels, bound by the agreed prices negotiated by the NSW Government. Vendor software licensing fees are anticipated to increase on average by 6% per annum.

  WaterNSW's adoption of cloud computing aligns with industry trends towards hosting digital services that scale rapidly in response to customer demand, and support more agile development of new services. Cloud costs are

increasing with additional data, new functions for customers, improved security and vendor price rises, at a rate above inflation. Cloud costs have grown by over 22% annually since between 2023 and 2025 and are forecast to rise 16% annually, which compares favourably with the NSW Government benchmark of 26%.

- **Insurance costs** – Insurance rates are increasing globally due to escalating frequency and severity of global risks, including major weather events, climate change and instances of cybercrime. As outlined in Attachment 8, historically insurance rates have increased by 17.4% per annum (2020-21 – 2024-25). We expect this trend to continue and have estimated an increase in insurance rates by 8.6% p.a. (2024-25 to 2029-30).
- **Land tax valuation** – Land tax is calculated on the total value of taxable land above the land tax threshold and is determined on the average land value from the current year and the two past years as determined by the NSW Valuer General. Historically, valuations for our land holdings have increased by 11.7% per annum driven by increases in the market value of land. We expect this trend to continue and have estimated an increase in land valuations by 8.4% per annum over the 2025 Determination period.

Efficiency savings – Included in the figures above is a cumulative productivity growth rate of 1% per annum, leading to $32.8 million of efficiency savings over the next five years. When combined with $2.3 million of 2024-25 savings, WaterNSW proposes $44.3 million of efficiencies over the 2025 Determination period.

Step changes

WaterNSW is proposing step changes of $54.3 million in our operating expenditure forecast against our adjusted base year over the next five years. These step changes account for externally driven costs and to fulfil our regulatory obligations. These costs are not accounted for in the base year or trend and cannot be absorbed in the upcoming determination period. Proposed step changes are detailed in Attachment 8 and illustrated below.

Table 21 – Summary of proposed step changes for WaterNSW ($m, 2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
New operating license conditions	$0.8	$3.7	$5.1	$5.1	$5.1	$19.9
Compliance uplift: Existing regulatory requirements	$6.9	$6.6	$5.9	$6.4	$6.4	$32.3
New regulatory requirements	$0.8	$0.7	$0.7	$0.7	$0.7	$3.6
New recurrent controllable opex resulting from new capex	$1.3	$1.3	$1.3	$1.6	$1.2	$6.6
Grant expiry	$0.4	$1.4	$1.7	$1.2	$0.7	$5.5
Water licence fees	$3.6	$4.3	$5.1	$5.9	$6.8	$25.7
Regulatory submission	-$2.1	-$2.0	$0.0	$0.8	-$1.3	-$4.6
Other- Allocated overheads	-$2.1	-$10.8	-$9.7	-$7.9	-$4.2	-$34.7
Total	**$9.6**	**$5.3**	**$10.0**	**$14.0**	**$15.4**	**$54.3**

The following summarises our proposed step changes in our operating expenditure forecast for WaterNSW (Greater Sydney, Rural Valleys and WAMC (WaterNSW only). More detail is available in Attachment 8.

New operating licence conditions

IPART conducted an end-of-term review of WaterNSW's operating licence 2022-2024 which expired on 30 June 2024. IPART recommended a new operating licence for WaterNSW, that came into effect on 1 July 2024.

Once the final operating licence was issued, we were able to understand and more accurately quantify the scope of the new operating licence requirements. While there is some discretion in the scope and/or timing of the obligations, we have developed costings based on a maximum value for money proposition.

This proposition relies on some underlying assumptions of scope and timing that are yet to be resolved with IPART and DCCEEW, which we will endeavour to address over the coming months.

Based on our understanding of the likely licence changes, we estimate the cost implications to be $24.7 million (including $19.8 million in direct costs) over the five-year determination period, with the majority of the impact to be incurred in the Rural Valleys.

Table 22 – Cost of complying with operating licence changes

	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	% of Total FY26-30
Cost of complying with operating licence changes	**$5,843**	**$8,459**	**$6,272**	**$6,413**	**$6,551**	**$33,539**	
Opex	**$1,032**	**$4,558**	**$6,219**	**$6,360**	**$6,497**	**$24,666**	**2.2%**
Greater Sydney	$0	$13	$13	$13	$13	$52.8	-
Rural Valleys	$1,032	$4,546	$6,206	$6,347	$6,483	$24,613	5.6%
WAMC (WaterNSW share)	$0	$0	$0	$0	$0	$0	-
Capex	**$4,812**	**$3,901**	**$53**	**$53**	**$54**	**$8,872**	**1.6%**
Greater Sydney	$16	$0	$0	$0	$0	$16	-
Rural Valleys	$4,795	$3,901	$53	$53	$54	$8,856	1.6%
WAMC (WaterNSW share)	$0	$0	$0	$0	$0	$0	-

* Table may not add due to rounding.

Compliance uplift – existing regulatory requirements

Step changes of $32.3 million in operating expenditure over the five-year determination period are required to ensure that WaterNSW is compliant with existing requirements, where there is currently non-compliance. This includes:

- **Land Management Program** –The *2015 Biosecurity Act* includes new obligations on landholders to manage pests and weeds.

WaterNSW responded well to those changes across its Declared Catchment holdings in its last Greater Sydney pricing proposal price; however, these responses were not replicated across our rural land holdings. Similarly, following the 2019-20 bushfires and subsequent State and Federal inquiries, significant changes were introduced to standards regarding bushfire management.

WaterNSW is not currently managing its lands and associated recreational facilities to meet the Australian Building Code, Fire Trail Standards mandated by the Rural Fire Service or meeting its general biosecurity duty under the Biosecurity Act. Key improvements will be for recreational facilities, surrounding communities and farmers ($21.2 million).

- **Crane Safety Improvement** - WaterNSW has over 280 assets that are considered cranes, winches or hoists. The development of the WaterNSW Cranes and Lifting Equipment Asset Class Strategy identified a number of improvement opportunities around the management of cranes assets. This included alignment of existing maintenance strategies to industry best practice and Australian Standard Requirements. Completion of this activity will ensure compliance with Australian Standards, the Work Health Safety Act 2011 and Work Health Safety Regulation 2017, and actively reduce one of our safety risks that can have significant consequences if left untreated ($6.4 million).
- **Electrical Safety Program** - The primary objective of the Electrical Safety Improvement (ESI) program is to identify, quantify and manage major electrical safety risks across WaterNSW powered sites. This is a continuation and expansion of the electrical safety program previously allowed for by IPART in its 2021 Rural Valleys Determination. The risk of not addressing the current state is potential harm to workers and plant and breach of Work Health and Safety Act and Regulation requirements as well as non-compliance with International Organisation for Standardisation (ISO) 55001 - Asset Management System. ($1.1 million).

Water licence fees

Impacting the Greater Sydney Determination, the increases in water licensing fees are made up of higher overall costs of Water Management and Planning Functions as per the WAMC pricing proposal and higher overall cost of Fish River Transfers for the Greater Sydney Region ($25.7 million).

Other step changes (positive and negative)

Additional step changes in operating expenditure are required over the five-year determination period, due to several items, including:

- **New regulatory obligations** – Step changes in operating expenditure are required to ensure that WaterNSW is compliant with new regulatory requirements. New step changes to meet new regulatory requirements include the Security of Critical Infrastructure (SoCI) Act compliance, Fleet Telematics, Environmental & cultural water, and Operational property upkeep ($3.6 million).
- **New recurrent controllable opex resulting from new capex** – The operating expenditure impacts of capital project completion are considered as part of forecast preparation. Where new assets are coming online, the ongoing operating costs and or savings are built into future forecasts based on the estimated capital completion date. Ongoing operating expenditure costs and or savings for new assets largely fall under the maintenance and energy categories. Higher opex is as a result of several investments, including the Chaffey pipeline and Fish River Dosing and Sludge Lagoon ($6.6 million).
- **Grant expiry** – The Water Modelling Team are currently funded under a grant (up to FY26 – funding expiring June 2025) to develop hydraulic and hydrologic modelling into Computer Aided River Management (CARM). These ongoing core activities are vital to ensure the continued and effective functioning of the CARM model in enhancing the understanding of river systems, supporting river management decisions and ensuring water is delivered when and where it matters for our customers and communities ($5.5 million).

- **Regulatory submission** – A reduction to the adjusted base year to reflect that pricing proposal costs were included in the 2022-23 base year that would not be incurred in each year of the 2025 Determination period (-$4.6 million).
- **Allocated overheads** – WaterNSW's Cost Allocation Manual (CAM) provided as Appendix 7 outlines how we distribute corporate costs across our regulated and non-price regulated service streams. The allocation of costs to WaterNSW's supplementary activities (non-core) and other non-regulated services do not form part of IPART's pricing determination, and the costs are therefore excluded. The application of the CAM results in a negative base year adjustment (-$34.4 million).

The following sections outline how the total WaterNSW proposed operating expenditure is recovered through the Greater Sydney, Rural Valleys and WAMC (WaterNSW only) pricing proposals.

Total WaterNSW operating expenditure

Our combined operating expenditure programs for our Greater Sydney, Rural Valleys and WAMC (WaterNSW only) services derived from applying IPART's Base-Trend-Step (BTS) approach from Figure 7 above are shown in Table 6 below. We are proposing a combined operating investment program of **$1.2 billion** ($1,245.1 million) (a 25.9% increase in real terms, over the current determination average) over five years that is the lowest sustainable cost to deliver on our regulatory and legislative obligations and to meet our customers' requirements.

The annual average of our proposed operating expenditure is **3%** higher than our forecast 2024-25 operating expenditure ($241.2 million), which reflects that the increasingly higher costs outside of our control facing the business have largely been offset by our cost transformation efficiencies.

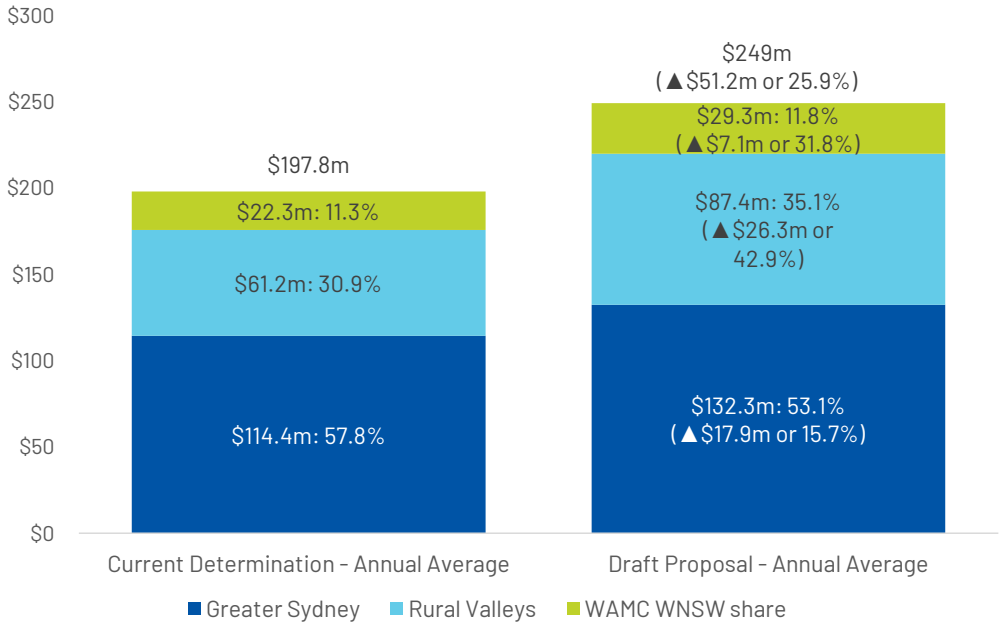
Table 23 – WaterNSW total average annual operating expenditure ($m, $2024-25)

	Current Determination Annual Average	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Average FY26-FY30	Annual Average Variance %
Total Operating Expenditure	**$197.8**	**$246.1**	**$242.3**	**$248.0**	**$253.5**	**$255.3**	**$1,245.1**	**$249.0**	**25.9%**
Greater Sydney	$114.4	$133.4	$128.1	$129.9	$134.0	$135.9	$661.3	$132.3	15.7%
Rural Valleys	$61.2	$83.8	$84.7	$87.6	$89.6	$91.5	$437.2	$87.4	42.9%
WAMC (WaterNSW)	$22.3	$28.9	$29.5	$30.5	$29.9	$27.8	$146.6	$29.3	31.8%

* Excluding non-urban metering or costs relating to fee for services

The figure below compares the average annual operating expenditure allowed by IPART in the 2020 Determination with the proposed annual average for the 2025 Determination period. As we are comparing a four-year current determination with a five-year upcoming period, we have used the average annual expenditure as the basis of comparison.

Figure 38 – Average annual operating expenditure – current determination and proposed ($m, $2024-25)

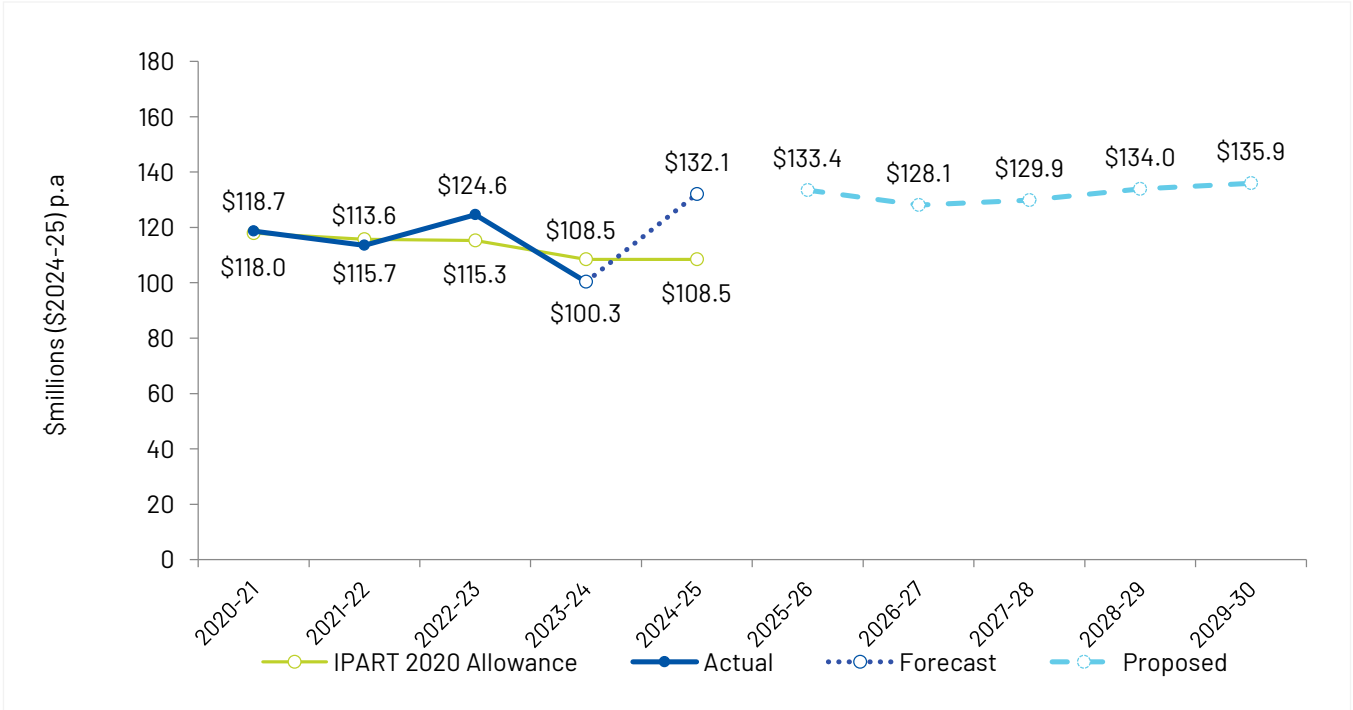


Proposed operating expenditure - Greater Sydney

Greater Sydney's estimated total operating expenditure forecast for the upcoming 2025-30 determination period is $661.3 million, representing a 15.7% increase in real terms ($2024-25) compared to our IPART allowance for the 2020 Determination period.

As illustrated below, our proposed Greater Sydney opex ranges from $133.4 million in 2025-26 to $135.9 million in 2029-30, an increase of 1.87%. The proposed annual average opex of $132.3 million is $17.9 million per year, or 15.7% higher than the average annual amount of $114.4 million from the 2020-25 Determination.

Figure 39 – Actual, allowed and forecast operating expenditure for Greater Sydney ($millions, $2024-25)



* Note that the IPART 2020 Greater Sydney allowance for 2024-25 equals the 2023-24 value on the basis that the deferral year (2024-25) sets a price path, but IPART has not made a determination on the efficient expenditure allowances for that year. Excludes non-urban metering or costs relating to fee for services.

Our proposed operating expenditure for Greater Sydney for the 2025 Determination period based on the Base-Trend-Step methodology is illustrated below.

Table 24 – Base-Trend-Step operating expenditure for Greater Sydney ($m, $2024-25)

	2022-23	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30
Base	**$116.5**	**$116.5**	**$116.5**	**$116.5**	**$116.5**	**$116.5**	**$582.7**
Base Adjustment	$12.1	$12.1	$12.1	$12.1	$12.1	$12.1	$60.5
Adjusted Base	**$128.6**	**$128.6**	**$128.6**	**$128.6**	**$128.6**	**$128.6**	**$643.2**
Trend		$1.0	$1.5	$2.0	$2.6	$2.7	$9.7
Step		$3.8	-$2.0	-$0.7	$2.7	$4.6	$8.4
Total Operating Expenditure		**$133.4**	**$128.1**	**$129.9**	**$134.0**	**$135.9**	**$661.3**

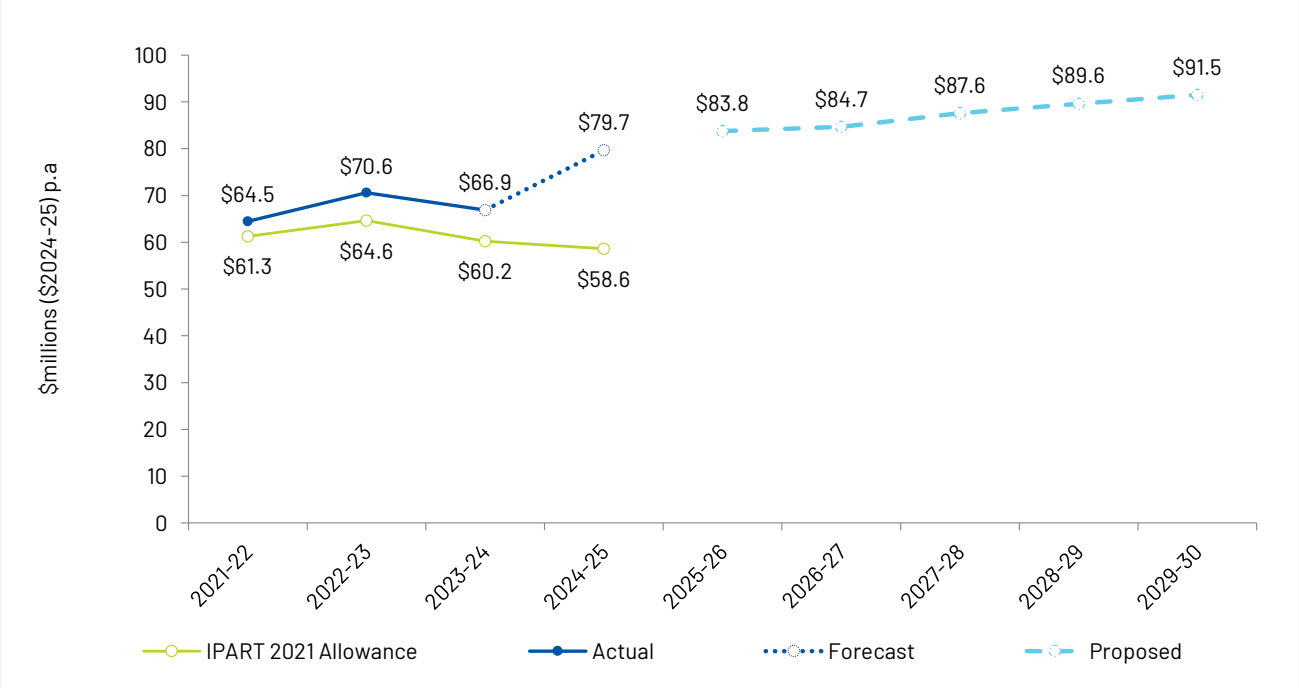
More details on the Greater Sydney Base-Trend-Step calculation is available in Attachment 8.

Proposed operating expenditure – Rural Valleys

WaterNSW's proposed Rural Valleys operating expenditure forecast for the 2025 Determination period is $437.2 million in total over the five years based on the BTS approach.

As illustrated below, our proposed Rural Valleys operating expenditure ranges from $83.8 million in 2025-26 to $91.5 million in 2029-30 ($2024-25). The proposed average annual operating expenditure of $87.4 million is $26.3 million per annum, or 42.9% higher than the average annual amount of $61.2 million from the 2021 Determination ($2024-25).

Figure 40 – Actual, allowed and forecast operating expenditure for Rural Valleys ($millions, $2024-25)



Our proposed Base Trend Step operating expenditure forecast for the 2025 determination for the Rural Valleys in aggregate is summarised below.

Table 25 – Base-Trend-Step operating expenditure for Rural Valleys ($m, $2024-25)

	2022-23	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30
Base	**$66.0**	**$66.0**	**$66.0**	**$66.0**	**$66.0**	**$66.0**	**$330.1**
Base Adjustment	$12.2	$12.2	$12.2	$12.2	$12.2	$12.2	$61.0
Adjusted Base	**$78.2**	**$78.2**	**$78.2**	**$78.2**	**$78.2**	**$78.2**	**$391.1**
Trend		$0.8	$1.0	$1.4	$1.9	$2.0	$6.9
Step		$4.8	$5.5	$8.1	$9.5	$11.3	$39.2
Total Opex		**$83.8**	**$84.7**	**$87.6**	**$89.6**	**$91.5**	**$437.2**

More details on the Rural Valleys Base-Trend-Step calculation is available in Attachment 8.

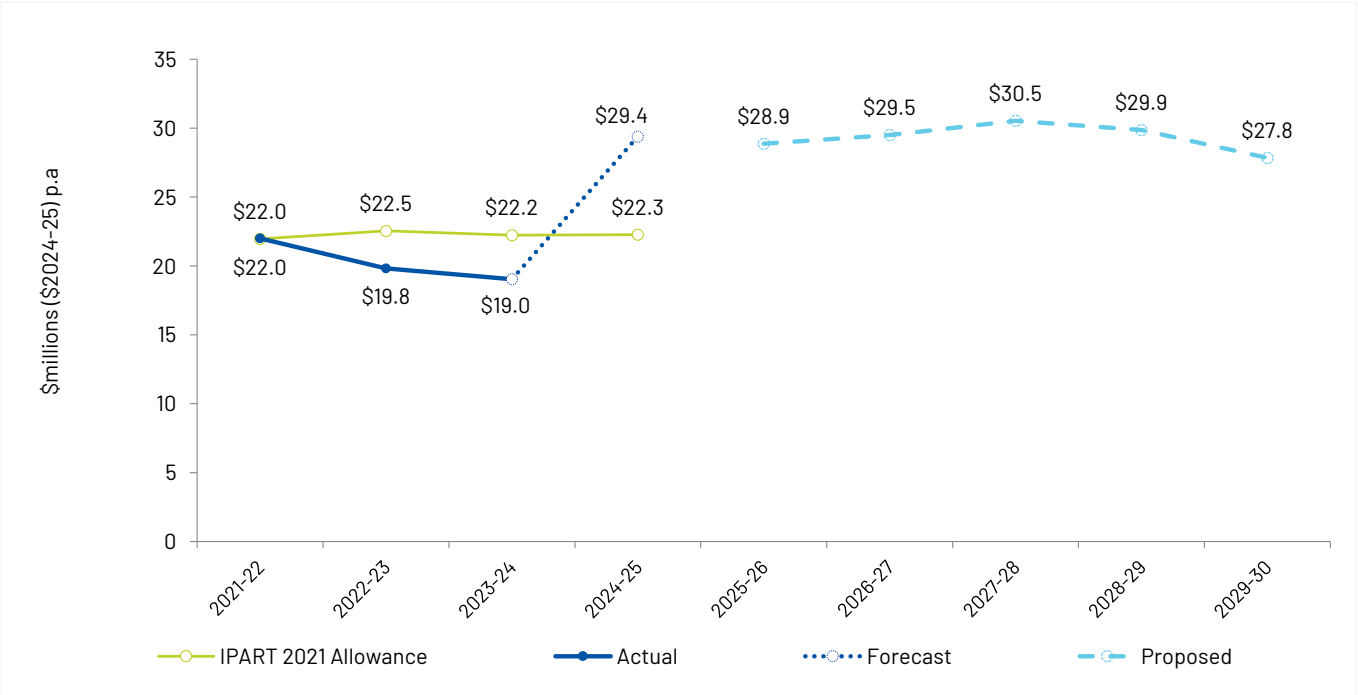
Proposed operating expenditure – WAMC (WaterNSW only)

Charges for activities provided by WaterNSW, undertaken on behalf of WAMC functions conferred on WaterNSW, are the subject of a separate joint pricing proposal prepared by DCCEEW, NRAR and WaterNSW.

We manage our costs via a whole of business approach to deliver value to customers and have included WAMC services and costs in this bulk water pricing proposal only so far as they provide visibility of how we manage our overall costs and activities to deliver our services.

Operating expenditure for WaterNSW's portion of WAMC services is proposed to be **$146.6 million** or $29.3 million on average over the five years of the 2025 Determination period as illustrated below.

Figure 41 – Actual, allowed and forecast operating expenditure for WAMC (WaterNSW only) ($m, $2024-25)



* Excluding non-urban metering or costs relating to fee for services.

The annual average of our proposed operating expenditure is **0.2% below** our forecast 2024-25 operating expenditure ($29.4 million), which reflects that the increasingly higher costs facing the business that are outside of our control are offset by our efficiency savings.

WaterNSW's proposed WAMC operating expenditure forecast for the 2025 Determination period over the five years based on the BTS approach is illustrated below.

Table 26 – Base-Trend-Step operating expenditure for WAMC (WaterNSW only) ($m, $2024-25)

	2022-23	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30
Base	**$18.6**	**$18.6**	**$18.6**	**$18.6**	**$18.6**	**$18.6**	**$92.8**
Base Adjustment	$9.3	$9.3	$9.3	$9.3	$9.3	$9.3	$46.3
Adjusted Base	**$27.8**	**$27.8**	**$27.8**	**$27.8**	**$27.8**	**$27.8**	**$139.0**
Trend		$0.0	-$0.1	-$0.1	$0.4	$0.6	$0.8
Step		$1.0	$1.8	$2.8	$1.7	-$0.6	$6.8
Total Opex		**$28.9**	**$29.5**	**$30.5**	**$29.9**	**$27.8**	**$146.6**

More details on the WAMC (WaterNSW only) Base-Trend-Step calculation is available in Attachment 8.

Salary and wage cost changes for the remaining four years of the 2025 Determination period are based on a forecast of the wage cost index which averages 1% in real terms over the four years. Wage costs for these years' increases are currently aligned to the NSW Government Fair Pay and Bargaining Policy 2023 of up to 4.5% inclusive of superannuation increases of 0.5% in real terms ($2023-24) .

Efficiencies built into our proposal

Our pricing proposal reflects **significant efficiencies** built into our revenue forecasts.

To put downward pressure on the costs we can control, we needed to change the way we operated to become a leaner, more efficient, more agile and higher performing business – together with a greater regional leadership presence.

Over the past two years WaterNSW has permanently removed $19.7 million of operational expenditure from the entire business. This reduction was against a baseline target set in 2022 of $21.6 million.

Of the $19.7 million of savings for the entire business, $17.8 million was specifically against core (regulated operating expenditure) activities. That is, $17.8 million is the component of the total WaterNSW efficiencies relating to our regulated Greater Sydney, Rural Valleys and WAMC activities. The remaining $1.9 million in savings is due to non-core activities (including MDBA and non-regulated activities).

Our cost transformation journey has led to **$89 million** in efficiencies over the 2025 Determination as a direct result of the savings.

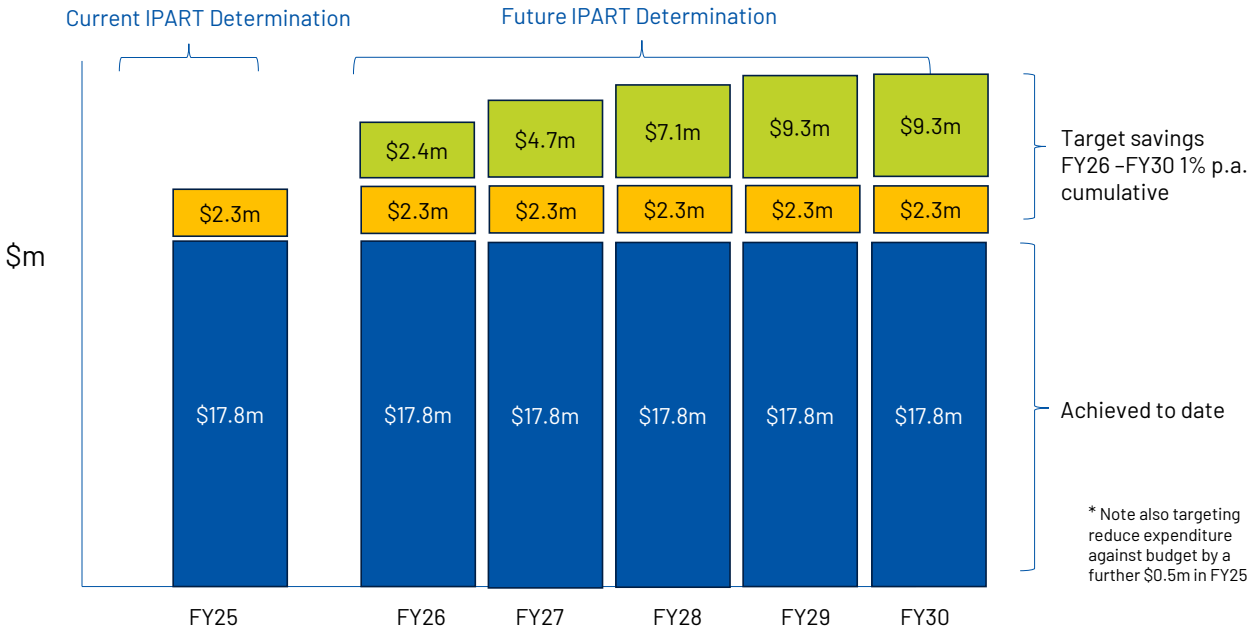
These are not one-off savings but costs that would have recurred every year had they not been eliminated. The largest contributors to these savings were the streamlining of senior management roles, reduced property leasing costs and reductions in contract labour.

We also propose a **cumulative efficiency target of 1% of total operating expenditure per annum** to ensure that customers continue to receive benefit from our transformation program over the

next five years and to provide a strong incentive on WaterNSW to continue to find productivity improvements. This provides an additional $44.3 million over the upcoming five-year period. The cumulative target aligns with the profile of our cost transformation program that requires up-front investment in many cases, the benefits of which are often realised over time.

The following figure outlines the permanent 'cost out' of the business from 2022-23 to 2029-30.

Figure 42 – Permanent cost reduction target ($m, $2024-25)

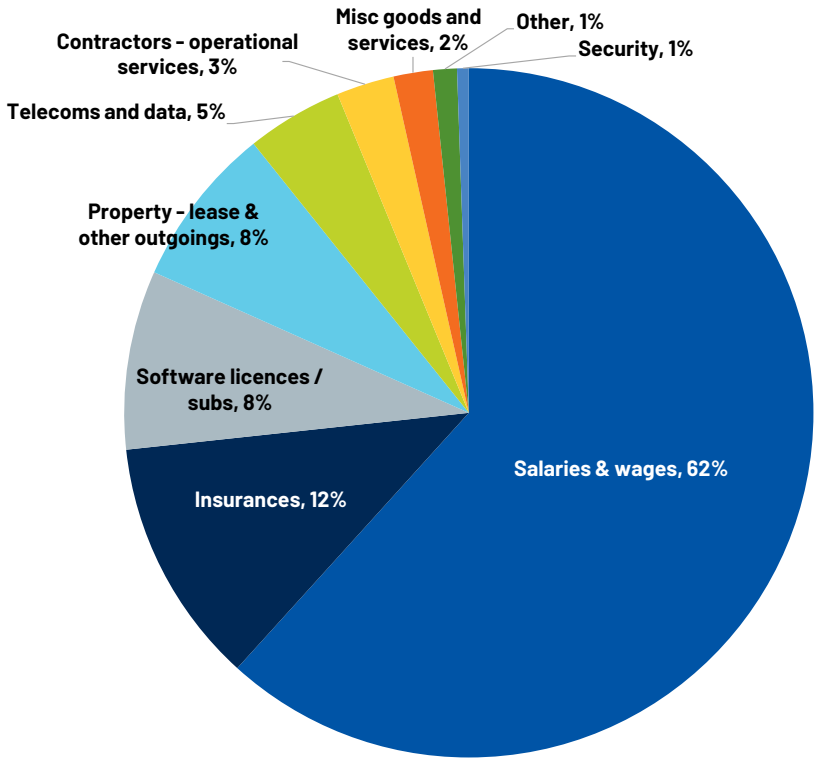


Combined with base year savings, the annual efficiency target leads to combined **savings of $133 million** over the upcoming five-year determination period.

WaterNSW will achieve these base year efficiencies through several initiatives as detailed in our efficiency program as outlined in Attachment 9. Cost reductions have occurred, and will continue to occur, across multiple areas as illustrated in the figure below.

Of the $17.8 million of costs removed from the core business in the past two years, over 50% resulted from reductions in labour-related costs. The majority of the remaining reductions were driven by revisions in procurement of goods and services, either though reduced demand or need for some services or revised terms, and property. Figure 43 below shows the cost reductions by category achieved in the past two years. The cost reductions by category achieved in the past two years are illustrated below.

Figure 43 – $18 million cost savings since 2022-23 by category



Our efficiency target aligns with the profile of our cost transformation program that requires up-front investment in many cases, the benefits of which are often realised over time.

The overall impact of our proposed cumulative savings is that our proposed operating expenditure over the five-year determination period is **10% less** than would otherwise have occurred in the absence of our efficiency savings.

These efficiency savings are in direct response to Customer Outcome No. 2 – Maintain downward pressure on our costs.

We continue to have a focus on cost efficiency across the business. Under the corporate strategy key priority of delivering operational excellence our Cost Transformation Program remains a key strategic initiative supported by the Executive team and approved by the Board.

The current and immediate future focus is on collaborating with leaders across the business to identify and drive cost reduction initiatives. These include detailed analysis of current and proposed expenditure by type to determine necessity, scale and alternative approaches. The drive is supported through a cumulative cost reduction target of 1% of operational expenditure each year for the 2025 fiscal year (against fiscal year 2024 actual spend).

In the short-term we will continue to focus on non-labour and contract labour costs. The reason for this focus is to ensure we have explored all such avenues while turning our attention to improved productivity.

Figure 44 outlines the key areas of focus for both short- and longer-term cost reduction.

Figure 44 – Cost transformation initiatives by category

Technology	Labour inc. contractors	Procurement	Operational Efficiencies	Capability	Property
• Technology roadmap / systems efficiencies • Field mobility technology • IOT sensing for gauges and sensors • Digitisation of vehicle logbooks / usage • Further automation of metering • Safety tracking systems remote workers	• Stricter process for recruitment of new staff / filling vacant positions • Reduction in overtime hours worked • Contractor usage & value: ◦ Operational ◦ Professional services ◦ Digital	• Safety tracking systems remote workers • Software licenses, usage and subscriptions • Sourcing strategies and procurement schemes for specialist services: ◦ Laboratory Services ◦ Hydrometric services ◦ Repairs and maintenance	• Extend use of customer portal • Lower cost energy sources (incl on site solar) • Centralised operational safety training • Continuous improvement program in Operations • Innovation hub	• Improved contract management capability • Enhanced capability of field-based employees • Uplift in commercial capability and culture • Consistent benefi ts tracking across organisation	• Divestment of key non- operational landholdings • Further property consolidation • Review property suitability at end of existing leases • Property management efficiencies, including security and maintenance

Our proposed operating expenditure program has been prepared in direct response to:

* Customer Outcome 1 – Maintain downward pressure on costs to support customer affordability
* Customer Outcome 2 – Provide secure and reliable water delivery
* Customer Outcome 3 – Be open and transparent (about customer charges and WaterNSW expenditure)
* Customer Outcome 4 – Drive sustainable water and land management
* Customer Outcome 5 – Provide easy customer and community access to data and information
* Customer Outcome 6 – Provide good customer experiences (enabling our customers to run their businesses)

10. Capital expenditure

WaterNSW continues to invest in renewing or replacing ageing infrastructure and in our transformation into a more customer-engaged and digitally enhanced business through our business transformation program.

Every asset is managed with the intention of maximising its performance and lifespan while also minimising cost and risk. This balance is assessed and reviewed by WaterNSW regularly.

The WaterNSW Capital Plan balances risk, cost, and performance to efficiently and prudently manage the assets in a manner consistent with the organisation's risk appetite and customer needs.

As discussed in Section 8, we have introduced an organisation-wide approach to prioritising our proposed investments. Our approach assesses proposed investments against a set of guiding principles and constraints to support investment decision making and brings transparency to the basis of choices we make as an organisation, irrespective of whether the investment is in infrastructure assets, digital projects or operating activities.

Once potential capital investment needs are identified, WaterNSW's investment prioritisation procedure is applied to ensure a structured and consistent process for prioritising capital investment. The process enables WaterNSW to direct funding to the highest priority projects and make informed decisions about the prudent level of investment in each valley or system.

This section examines our proposed capital expenditure program and is sectioned into the following areas:

- infrastructure capital expenditure
- digital capital expenditure
- proposed capital expenditure for WaterNSW (combined)
- proposed capital expenditure for Greater Sydney
- proposed capital expenditure for Rural Valleys
- proposed capital expenditure for WAMC.

10.1 Asset infrastructure capital expenditure

Infrastructure investment context

WaterNSW has developed a 30-year model to forecast when existing assets will require replacement based on their current age and asset condition (noting there is an inherent increase in capital investment as assets approach the end of their service life). The model incorporates the estimated replacement cost of WaterNSW's infrastructure assets (based on a valuation report). This provides insights into longer-term trends in capital investment requirements to inform asset management decisions.

This allows WaterNSW to anticipate future capital expenditure trends across its asset base and analyse broad capital expenditure requirements between metropolitan and rural areas and across valleys and systems. WaterNSW uses these longer-term forecasts to optimise the timing of asset renewal, balancing asset risk and impacts on customer pricing through scenario assessment, which is an integral part of our submission development.

The following conclusions are evident from capital investment modelling as discussed in Attachment 18:

- A material increase in capital investment is needed in the Rural Valleys over the medium-term (particularly until mid-2040s). This demonstrates a continuation of historic levels of investment are not sustainable without creating a significant challenge in future years.
- Capital investment levels over the longer term in Greater Sydney are more stable than in the Rural Valleys.

In both cases the peaks shown in the model outputs are representative of the WaterNSW asset base which typically entails long-life assets that have a material renewal cost, therefore creating a 'peaky' renewal profile.

In preparing the capital program, more candidate projects were identified than could be delivered whilst adequately balancing impacts to pricing in the 2025 Determination period. WaterNSW consulted with its customers and modelled the bill impact associated with varying levels of capital expenditure in each valley.

This feedback helped guide WaterNSW's prioritisation process to establish a prudent level of capital investment in each valley. The prioritisation process provided a rigorous and structured process for selecting projects for delivery in the 2025 Determination period and deferring projects for delivery in later determination periods.

The process of identifying, validating and prioritising projects is described in detail in section 5 of Attachment 18. WaterNSW estimates that our prioritisation process has resulted in $860 million of projects being deferred or rescoped.

Asset management planning

This section discusses how we've incorporated our customers' preferences, reduction of risk, and efficient asset lifecycle management into our asset investment programs. We set out the approach to long-term risk management and renewals planning and how this has guided our proposed asset capital expenditures for the 2025 Determination period. This is discussed in more detail in Attachment 18.

WaterNSW operates and maintains a large and diverse range of infrastructure assets across NSW. These vary in size and complexity from the simplest of weirs to one of Australia's largest and most critical urban water supply dams (Warragamba Dam). We own and operate 41 large dams, which are essential for safe and reliable delivery of water.

Many of WaterNSW's assets are large civil structures with construction dates going back over 100 years in some cases. This presents a unique challenge to WaterNSW to balance the risk of service failure for an ageing asset against the cost impacts to customers. As these assets age, increasing diligence from WaterNSW is required to mitigate the potential for service interruption.

We keep local communities front of mind throughout all activities, as a partner and advocate. Prudency and efficiency, and responding to community, customer and stakeholders' expectations are key requirements for WaterNSW when establishing the capital program.

WaterNSW has considered outcomes in water availability, reliability and quality, compliance with regulation, Health and Safety of its workforce and the public, and affordability. In this pricing proposal, WaterNSW has also sought to explicitly address the risks posed by climate change and drought, which has historically and will inevitably impact future water supplies to our major cities, regional towns, rivers and primary producers.

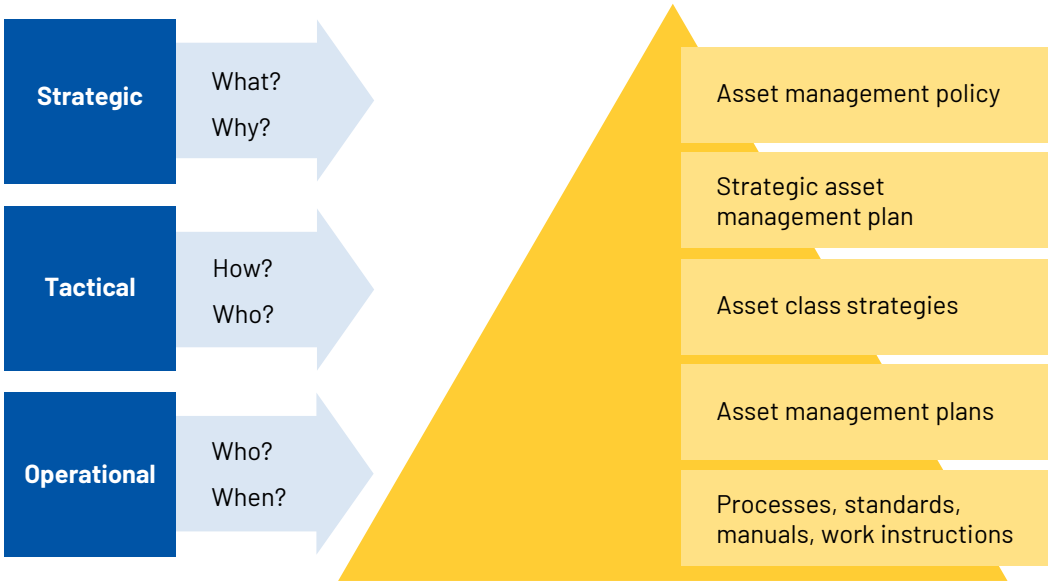
Over the next five years, we recognise that much needs to be done to maintain and upgrade water infrastructure across NSW. The age of dams, weirs, tunnels, pumps and pipelines indicate they should be renewed to mitigate risk, improve supply reliability and system capacity, control systems improved to enhance the ability for WaterNSW to manage precious water resources, fishways constructed to improve river health, and many other assets maintained so acceptable levels of risk and service are sustained.

However, we are conscious of cost-of-living pressures across urban and regional towns and businesses. Consequently, we have actively sought to reduce, postpone or eliminate all but the most essential works. The combined five-year

infrastructure capital program that is proposed for our Greater Sydney, Rural Valleys and WAMC (WaterNSW only) services will manage supply and quality risk and delivers on WaterNSW's regulatory obligations.

WaterNSW's Asset Strategy balances risk, cost and performance to efficiently and prudently manage the assets in a manner consistent with the organisation's risk appetite and customer needs. The strategy is established and delivered through a hierarchy, shown below that ensures effective translation of strategy into operational action. Effective management of assets enables the delivery of water to customers.

Figure 45 – WaterNSW asset hierarchy



The focus of the asset infrastructure capital expenditure program over the next five years is to:

- keep local communities at front of mind as a community partner and advocate
- manage, mitigate, and retire risk
- operate flexibly and plan for future generations
- increase sustainable and healthy water systems and enable thriving communities
- improve productivity and efficiency to keep costs as low as possible
- invest in our assets to maintain and improve water delivery.

To avoid or defer works, we have developed scenarios to assess the risk and explore alternate options to mitigate risk. For example, we have sought to implement additional maintenance and monitoring programs that mitigate known risks.

In other situations, we have implemented new technology which will allow our assets to perform more effectively. As a last resort, in some cases we have taken the decision to accept more risk, and instead are improving our capacity to respond to an asset failure more effectively, including communicating with affected stakeholders in advance of failure wherever possible. Our efforts have resulted in an **$860 million** reduction in the cost of our originally developed program.

We are investing in our assets to maintain and improve water delivery, and we know that the alternative to investing in our assets is unacceptable.

The WaterNSW Capital Plan balances risk, cost and performance to efficiently and prudently manage the assets in a manner consistent with the organisation's risk appetite and customer needs.

While the plan is set now, we recognise that we live and work in an ever-changing operating environment. Over the next five years, it is possible that priorities will change, and the program will adjust slightly to respond. Any adjustments to the program will be completed with regard for the stakeholders who are impacted by any change.

Our capital investment process is outlined in detail in Attachment 18 and includes the following elements to ensure customer priorities are incorporated in our asset planning at lowest sustainable cost.

Project identification

WaterNSW has identified candidate capital projects from a range of sources:

- **Managing ageing assets** – WaterNSW maintains Asset Class Strategies for all major asset categories which identify the assets, their expected life, age profile, service levels, criticality and maintenance and renewal requirements. The Asset Class Strategies list any asset management requirements driven by regulatory maintenance as well as applicable industry standards for managing the assets. Many asset renewal projects are identified through this formal asset management planning.
- **Compliance driven projects** – Up to 60% of the capital program is driven by compliance with specific regulatory requirements.
- **Site specific requirements** – Operator recommendations for potential works based on their experience operating the assets is gathered through workshops. Regional operating risk assessments are also conducted, using the corporate risk template, which identify required mitigations.
- **Water supply needs and resilience** – Customer and community preferences and regulatory requirements drive system and environmental performance standards. Compliance with standards as informed by asset reliability data (for example, service interruptions).
- **Security and safety** – Risks to the public, employees and asset security are reviewed to identify potential capital works to mitigate unacceptable risks. Compliance with applicable legislation such as Security of Critical Infrastructure Act 2018 is also assessed regularly to identify potential works.
- **Growth in network and customer connections** – Capital investment which are required to extend services to new areas, to existing properties or due to increasing density in existing areas.
- **Strategic planning** – Regional and metropolitan water strategies, drought strategies and Sydney Water's Long Term Capital and Operational Plan inform strategic decisions about the need for new or augmented infrastructure to meet the long-term service needs within valleys or systems.
- **WaterNSW strategic corporate priorities** – Outcomes of workshop assessments of WaterNSW operational needs, challenges, and opportunities against the strategic corporate priorities.

WaterNSW identified a large number of potential capital projects required in the short, medium and longer term. The following sections explain how WaterNSW validated the business need for, and determined the relative priority of, the projects for inclusion in the 2025 Determination period submission.

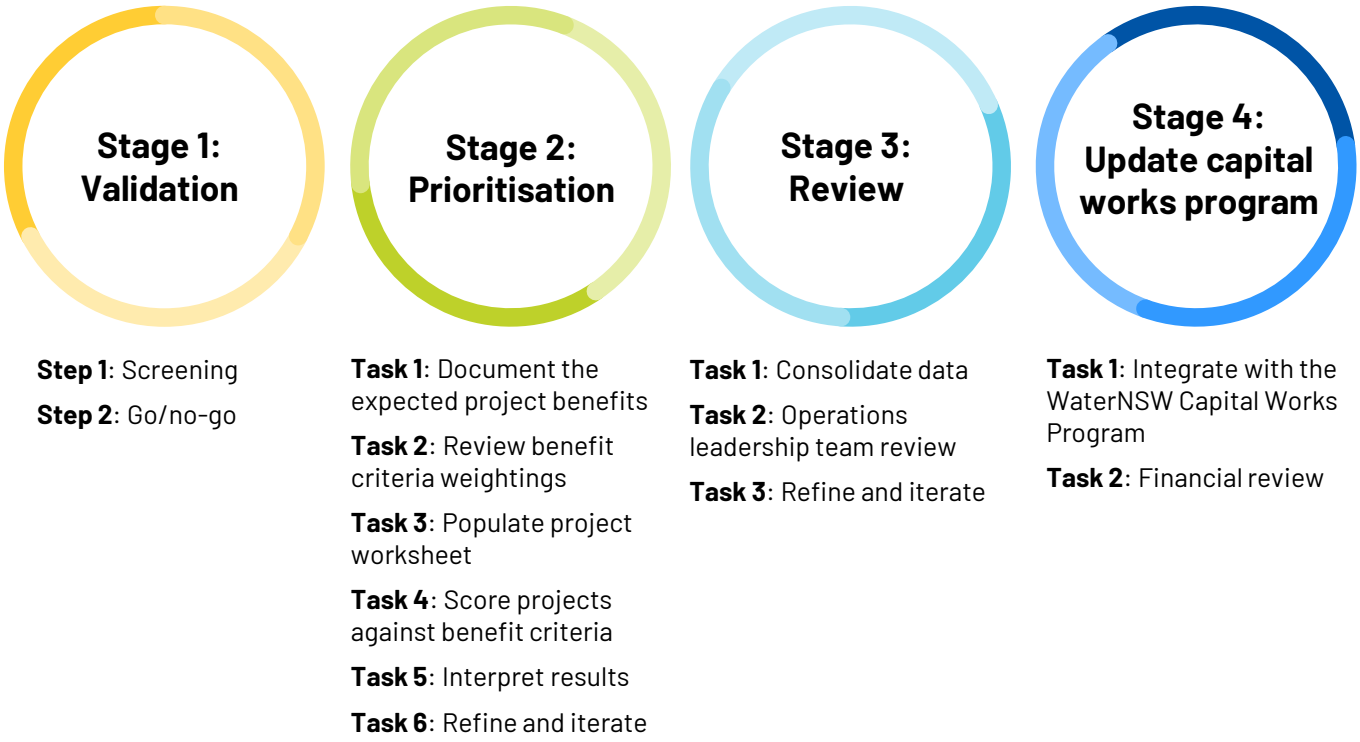
Project prioritisation (Infrastructure)

Once potential capital investment needs were identified, WaterNSW's Operations Capital Project Prioritisation Procedure was applied to ensure a structured and consistent process for prioritising capital investment. This process complements WaterNSW investment prioritisation process

described in Section 8, and is optimised for capital investment on water infrastructure in line with the requirements of our ISO 55001 certified Asset Management System.

It enables WaterNSW to direct funding to the highest priority infrastructure investments and make informed decisions about the prudent level of investment in each valley or system. WaterNSW's Operations Capital Project Prioritisation Procedure is summarised below.

Figure 46 – WaterNSW Capital Project Prioritisation Procedure



- **Stage 1: Validation** – Validation applies screening checks and Go / No Go criteria to remove potential projects where there is an existing project underway to address the service need, works would be classified as operating expenditure, or involve works on assets not currently or proposed to be a WaterNSW asset. This ensures projects undergoing prioritisation are considered valid capital projects.
- **Stage 2: Prioritisation** – Validated projects are then evaluated individually to assess their expected benefits relative to their likely costs. For each project, Operations personnel use WaterNSW's Operations Prioritisation Tool to assign consensus benefit scores of None, Very Low, Low, Moderate, High or Extreme for each of the benefit criteria. The benefit criteria align with WaterNSW's corporate strategic priorities as shown in the table.

Benefit scores are allocated based on alignment with guidance criteria. As an example, the Operations Prioritisation Tool provides the following guidance on the quantum of benefits a project would be expected to generate to receive a 'Moderate' score for the Operational Performance – Service Delivery benefit criteria:

- The project resolves a moderate risk to delivery of an unacceptable outage to services, or the project will result in a modest incremental increase (approximately 1%) in services levels/ operational efficiencies for a large group of external customers.
- Examples of moderate benefits: estimated financial savings of $500,000/year, or improvements to operational systems enabling a 1-5% reduction in avoidable losses, or improvements that increase available water

allocations to approximately 3GL for Rural Water or 300ML for Greater Sydney.

A project's total benefit score is divided by its estimated cost to generate a benefit to cost ratio (termed 'value score'). The value score is not intended to indicate the economic viability of a project; its absolute value is used to generate a preliminary ranking of the highest to lowest priority projects within a valley or system.

- **Stage 3: Review** – Preliminary prioritisation outputs provide stakeholders with an initial view of the relative priority and total valley/ system expenditure associated with a range of investment scenarios, such as:
    - 'Do A Little' versus 'Do A Lot'
    - Impact of a high priority major project on proposed funding in a valley.

  It also allows further review of the relative priority of certain projects as a validation step, allowing for adjustment of benefit scores if a project is ranked significantly higher or lower than would be logical.

  This stage also enables the assessment of a prudent level of expenditure utilising the process described in Section 3. Providing WaterNSW management with the opportunity to understand various investment scenarios, potential pricing impacts and asset management impacts at an early stage of the process.

- **Stage 4: Update capital works program** – In reviewing the overall Capital Works Program for infrastructure, WaterNSW may establish valley or system budgets at levels lower than Operation's proposed expenditure forecasts in order to manage impacts on customer prices, giving consideration to other business capital works programs. In these cases, the projects that will be selected based on the prioritisation process to determine which projects to progress through WaterNSW's project lifecycle (refer to the Project Lifecycle as outlined in Assets – Project Management Framework (CD2021/164). This ensures that the organisation focuses on projects that can feasibly be delivered within the available financial envelope.

Options assessment and cost forecasts

As projects are validated and prioritised, WaterNSW commences development of projects that will form the capital works program. WaterNSW works with engineering partners and other specialist consultants to collect requirements from project stakeholders, confirm approval requirements and design technical solutions to an appropriate level of detail that cost estimates can be updated to a confidence level appropriate for a Preliminary Business Case. A Preliminary Business Case is developed for each project for consideration for approval to spend by WaterNSW's delegated authority.

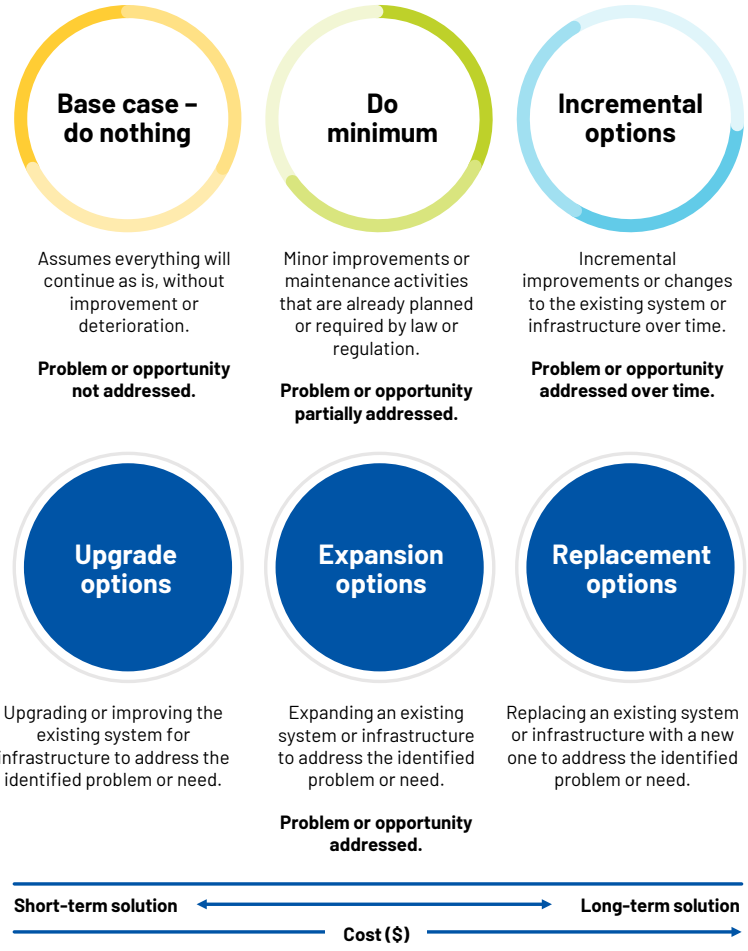
Projects are then developed through the following phases of WaterNSW's project lifecycle:

- P0 investigation
- P1 initiation
- P2 planning
- P3 execution
- P4 completion.

In developing infrastructure projects, WaterNSW uses the Operations Options Assessment Guideline as a standardised methodology for developing, analysing, and evaluating different options for WaterNSW capital works projects. The guideline seeks to drive the most cost-effective solutions for generating the intended project benefits.

The guideline requires projects to be classified as basic or complex, and for complex projects, multiple options need to be developed and compared via multi-criteria analysis, lifecycle cost analysis or cost benefit analysis. Options include a 'do nothing' base case and incrementally larger solutions for comparison as shown below.

Figure 47 – Options Assessment Guideline



Alignment to customer outcomes

WaterNSW relied on customer feedback to drive the strategic focus for the capital program for the 2025 Determination. Our pricing proposal is focused on delivering on the outcomes that customers value. We are guided by the six customer outcomes identified during our engagement program as outlined in Section 4 and as detailed in Attachments 3 and 4.

Program efficiencies

WaterNSW expects to generate efficiencies when delivering the capital program through:

1. Value engineering during design development.
2. Procurement efficiencies through intelligent project packaging that may enhance competition or generate economies of scale or geographic synergies for construction contractors.
3. WaterNSW project management efficiencies via allocation of low complexity projects to Regional Delivery team.

These efficiencies are expected to reduce costs across the program generally. Accordingly, cost estimates for new candidate projects and fishway projects were reduced by the following efficiency factors to reflect these program-level efficiency opportunities:

- 2.5% for small rural valleys, being those with FY26-30 capital expenditure <$5 million (Border, Lowbidgee, North Coast, Peel, South Coast)
- 3.0% for large rural valleys, being those with FY26-30 capital expenditure >$5 million (Fish River, Gwydir, Hunter, Lachlan, Macquarie, Murray, Murrumbidgee, Namoi)
- 4.0% for Greater Sydney.

Efficiency factors were applied prior to application of corporate overheads. Efficiency factors were not applied to existing active projects, fleet purchases, plant and equipment purchases, cold water pollution planning projects as value engineering and other program-level efficiencies were limited.

Operating challenges

Some of the major external challenges which will require a strategic asset management and investment approach across WaterNSW over the next 10 years include:

- **Climate change** – Even though we own and operate a highly secure and adaptable network with the ability for internal transfers to tackle pressure points, climate change in

the form of drought, flooding and extreme events is expected to place pressure on our infrastructure and water delivery.

- **Security of supply** – The Greater Sydney region water sources are under pressure due to reducing yield, increasing population demand and new water demands for environmental purposes. Rural areas have experienced severe water shortages since the last protracted 'Millennium' drought with many areas continuing to experience restrictions.
- **Operational resilience** – Given the critical nature of our water supply, due consideration has been given to the resilience of the bulk water supply system to provide water of acceptable quality and reliability under a variety of operating contexts.
- **Flood mitigation** – Flood mitigation historically has been a major function of certain rural dams and is now being considered by policy makers for Greater Sydney's Warragamba Dam. The future impacts of climate change will make flood mitigation an even more relevant consideration.
- **Technological advances** – Various remote monitoring and control systems (such as SCADA) present WaterNSW with opportunities to expand standardisation of these systems across the State and improve operational efficiency and safety.
- **Ageing infrastructure** – Some WaterNSW operational assets date back to the mid-19th century. Many operating precincts, facilities and assets have significant heritage and cultural significance and are listed on the State's Heritage Register. Management of these operational assets to meet regulatory and customer service requirements must be done with consideration of the *Heritage Act 1999 (NSW).*
- **Cost of materials and supply chain issues** – Ongoing supply chain issues and increasing material costs are expected to place upward pressure on the costs of our expenditure programs moving forward.
- **Compliance with obligations under the Dams Safety Act 2015 (NSW) and other legislation** – This involves alignment of WaterNSW Dam Safety expenditure with the requirements of new risk-based dam safety management standards and water quality and catchment protection.

Enabling WaterNSW employees to deliver high quality outcomes to our customers whilst supporting continuous improvement through the provision of **equipment and technology solutions**.

10.2 Investment in technology

The digital program for the 2025-30 determination period forms the foundation of WaterNSW's transformation to a digitally enhanced business, delivering quality services to customers and community, and supporting the broader NSW water sector.

WaterNSW will deliver critical investments in shared information systems and services for the benefit of the business, our customers, and also to our partners in the NSW water sector (NSW DCCEEW and NRAR).

WaterNSW's total proposed capital investment in digital technology is **$163.5 million** (excluding $9 million of Technology Roadmap investments for DCCEEW/NRAR) over the 2025-30 determination Period. This includes $64.4 million for delivery of the technology interests identified in the Technology Roadmap 2025-2030 over five years (allocated across WaterNSW's Bulk Water determinations).[15] This investment will deliver an uplift in WaterNSW's capabilities in areas of data and information quality, safeguard the business against increasing cyber security threats and improve efficiency across the business and with our partners and customers. Further detail on WaterNSW's digital program is contained within Attachment 11.

[15] Note the final years of the Roadmap are planned to be delivered from the future pricing period commencing 2030 onwards.

The Technology Roadmap is a key feature of WaterNSW's forward program (see Appendix 4). The Technology Roadmap identifies both a WaterNSW and whole of NSW water sector approach to technology to deliver improved efficiencies and customer value. The 10-year technology vision and Technology Roadmap establishes a unified vision for digital services across WaterNSW to deliver improved customer experience, enhanced transparency and operational efficiencies.

Our ambition under the Technology Roadmap is that, "*by 2035, our workforce will use modern technology, open data assets, and a virtual water technology ecosystem to make trusted insight-led decisions, have simplified automated processes, and provide connected digital customer experiences*".

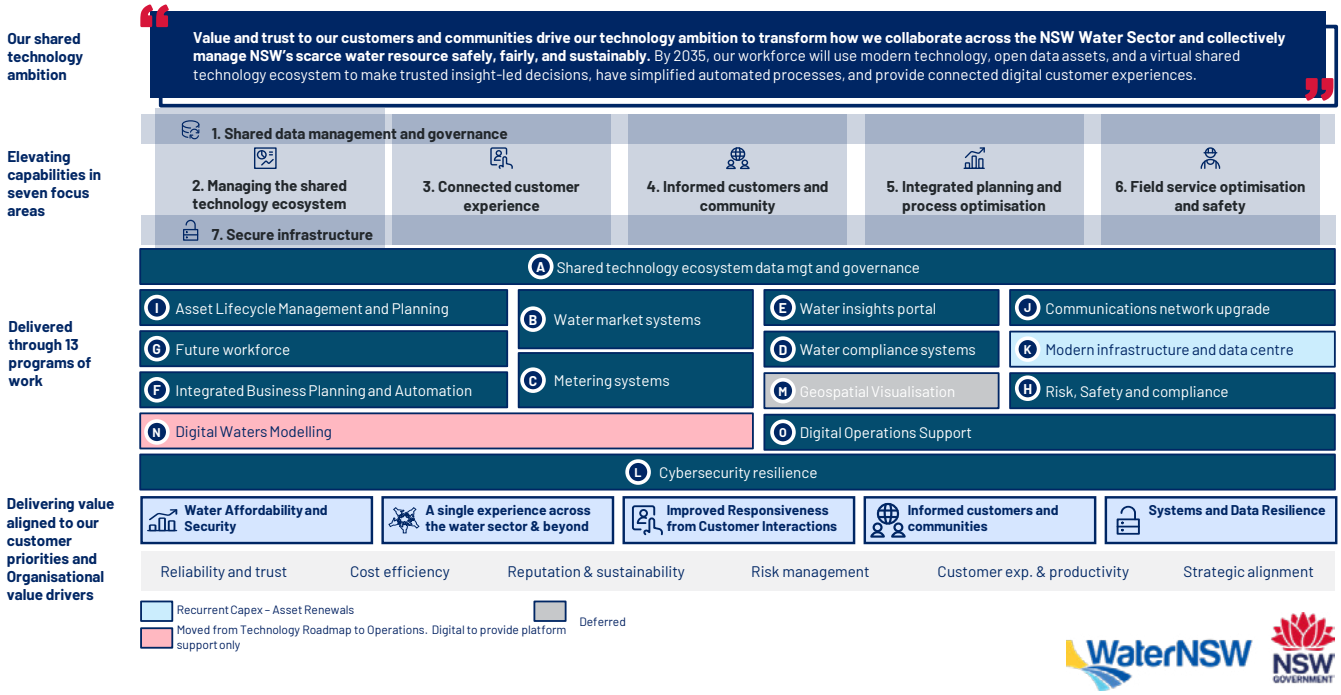
The Technology Roadmap represents a strategy consisting of 13 programs that will deliver significant total economic benefit to WaterNSW and its customers. The Technology Roadmap represents a strategy consisting of 13 programs across Bulk Water and WAMC that will deliver significant total economic benefit to WaterNSW and its customers. These benefits will include more connected ways of working across a significant increase in application sharing between WaterNSW and its partners. This includes a commitment to remediation of legacy data, improved governance and ongoing development of applications such as the Water Markets and Metering systems, beyond WaterNSW processes in the water resource management value chain.

The WaterNSW components have been designed to address key issues and requirements within the current technology landscape:

- Replace ageing technology that presents increased cyber security risks and or is no longer supported by vendors.
- Improve data quality and completeness, as well as remove operational inefficiencies (including duplication and manual processes).
- Improve the customer experience by implementing 'self-service' online processes and by addressing challenges that arise from separate agency processes by taking a unified ecosystem approach.
- Comply with regulatory and legislative requirements (cyber security, critical infrastructure legislation, data management and privacy).
- Maintain key operational systems and carry out foundational work for pivotal developments which will be implemented in the 2030-35 regulatory period.
- Uplift critical internal processes and systems (HR core processes, safety incident recording and reporting and finance planning processes) to increase efficiency and improve analysis and reporting capabilities.

In summary, the primary objectives of the Technology Roadmap are to enhance the customer experience, upgrade new systems and ensure compliance with new legislative requirements, such as cyber security and critical infrastructure security. The Technology Roadmap aims to elevate capabilities in seven key focus areas, delivered through 13 programs of work that deliver value to our customer priorities and organisational value drivers (see Figure below). Note that one initiative, Geospatial Visualisation, has been deferred to a later regulatory period.

Figure 48 – The Technology Roadmap (includes 4 NSW water sector-wide initiatives)



The Technology Roadmap will be implemented in three phases or 'horizons' over a 10-year period, delivering the WaterNSW collective on the vision.

- **Horizon 1 (2025-2026)** lays the groundwork for the Technology Roadmap, prioritising robust technology and streamlined processes to deliver value through secure data and foundational technology.
- **Horizon 2 (2027-2029)** builds on these foundations, aiming to enhance value by leveraging the established technology for customer-centric innovations and strategic use of integrated data and platforms.
- **Horizon 3 (2030-2035)** focuses on scalability and innovative growth propositions, such as broad cloud adoption, automation, modernised services, and advanced analytics. This horizon builds upon the successful delivery of previous horizons. Part of this horizon falls outside of the 2025-2030 determination period. The costs associated with this will be evaluated separately.

Through the Technology Roadmap, WaterNSW is well positioned to achieve its vision of a unified, efficient, and customer-centric operating model for digital services. This represents a significant leap forward in realising this vision. WaterNSW will, in addition, handle the technology delivery for specific programs within the shared technology ecosystem. Meanwhile, DCCEEW and NRAR will offer business analysis, project management, and project sponsor support for shared technology ecosystem initiatives (4 of the 13 programs).

Table 27 shows the key programs to be delivered as part of the Technology Roadmap over the forward determination period (2025-30). The proposed expenditure presented represents WaterNSW's proposed investment in the Technology Roadmap only. In developing the proposed expenditure, WaterNSW undertook a comprehensive options assessment process to right size and refine the proposed investment. Some projects will have ongoing costs, with completion planned for FY31 or beyond. The full costs of the program are outlined in the WAMC joint Digital Business Improvement Strategies proposal.

Table 27 – WaterNSW planned investment in the Technology Roadmap over the 2025 Determination period ($m, $2024-25) [16]

Roadmap program	Driver	Proposed solution	Total 2025-2030 ($m, $2024-25)
WaterInsights Portal	Customers and community cannot efficiently access data due to system complexities.	Empower customers to manage their water resources. Improved functionality and features with customisable views.	$7.8
Ecosystem data strategy, use cases and governance*	Data assets are not integrated, are low quality, and not enabled for data-sharing.	Enhance the quality, reliability, and efficiency of routine water resource management activities while minimising delays in customer transactions.	$10.9
Cybersecurity resilience	SoCI legislation and cyber security maturity.	Ensuring compliance with the Security of Critical Infrastructure Act 201.	$3.8
Future workforce	High maintenance costs, poor employee experience, lack of self-service capabilities, risk of human error, and limited strategic workforce planning.	Optimise the future water workforce by addressing challenges in Human Capital Management through workforce planning, talent management, training, upskilling, and implementing an integrated Human Capital Management solution.	$4.3
Integrated business planning and automation	Currently requires intensive manual effort that are inconsistent across the business.	Upgrading financial planning tools and implementing an enterprise-wide contract management solution.	$6.3
Asset lifecycle management and planning	Lack of integration across multiple assets management systems and gaps in the information flow.	Comprehensive asset management system to address issues with data accuracy, connectivity, resource planning, and automated maintenance in asset lifecycle management and planning.	$15.4
Customer metering systems*	NUMR and FPH regulations and customers have limited access to their own metering data.	Enable customers to manage their water meters through a centralised portal, providing improved reporting, better usage management, and overall cost savings in meter data management.	$8.6
Water market systems*	Currently a fragmented experience and source of frustration for customers.	Enhances customer service, cost efficiencies, and compliance by transitioning key transactions online, retiring outdated systems vulnerable to cyber risks, and integrating water users' licenses.	$28.3
Risk, safety & compliance	Lack of timely risk detection, and inefficient risk management processes, which hinder effective decision-making and expose the organisation to potential risks.	A cloud-based 'Risk Hub' that integrates information and data across the organisation, allowing for real-time risk management, improved compliance, and increased efficiency in risk management processes.	$3.2
Communication network upgrade	Currently there is poor and inconsistent communications to remote dams and offices. Retiring of the 3G network.	Upgrading the communications network to enhance field-based employee productivity, improve safety, and reduce risks associated with remote work, by integrating sensors, IoT devices, remote monitoring, and improved data management and analytics capabilities.	$20.3

[16] Software as a Service IT has been categorised as capex for regulatory purposes. This marks a difference from Accounting Standards that changed during the current determination period to treat this expenditure as opex. WaterNSW has maintained the approach from the current determination in order to provide some pricing relief for customers in the short-term.

Roadmap program	Driver	Proposed solution	Total 2025-2030 ($m, $2024-25)
Digital operations support	Limited platform integration, manual inefficient processes, a lack of real-time monitoring during extreme weather events.	Improve existing technology, integrate platforms, and expand SCADA systems. Align to modern standards, and enhanced user interactions with water data, dam and weir surveillance.	$3.3
Geospatial visualisation	Geospatial Visualisation, has been deferred according to customer preferences to FY31-36.		
Water compliance*	This will be a cost borne by the Natural Resources Access Regulator (NRAR)		
Total			**$112.1**

* WAMC Initiatives

10.1 Proposed capital expenditure - WaterNSW combined

Our proposed five-year capital expenditure program for our Greater Sydney, Rural Valleys and WAMC (WaterNSW only) services over the 2025 Determination period is $2.1 billion ($2,153.8 million) as shown below. Our proposed five-year capital expenditure program for our Greater Sydney, Rural Valleys and WAMC (WaterNSW only) services over the 2025 Determination period is $2.1 billion ($2,153.8 million) as shown in Table 28 below.

We are proposing a targeted investment program that is the lowest sustainable cost to deliver on our regulatory and legislative obligations and to meet our customers' requirements at an acceptable level of risk.

Table 28 – WaterNSW proposed capital expenditure compared with current determinations ($m, $2024-25) [17]

	Current Determination Annual Average	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Draft Proposal - Annual Average
Total capital expenditure	**$218.4**	**$308.9**	**$495.5**	**$533.0**	**$463.6**	**$352.8**	**$2,153.8**	**$430.8**
Greater Sydney	$116.4	$164.3	$300.9	$370.8	$367.9	$281.9	$1,485.8	$297.2
Rural Valleys	$91.4	$113.8	$164.7	$136.1	$78.9	$59.6	$553.1	$110.6
WAMC (WaterNSW share)	$10.6	$30.8	$30.0	$26.0	$16.8	$11.4	$114.9	$23.0

* Numbers in the table are rounded, and may vary due to rounding

[17] Software as a Service IT has been categorised as capex for regulatory purposes. This marks a difference from Accounting Standards that changed during the current determination period to treat this expenditure as opex. WaterNSW has maintained the approach from the current determination in order to provide some pricing relief for customers in the short term.

Figure 49 – Average annual capital expenditure – current determination and proposed ($m, $2024-25)

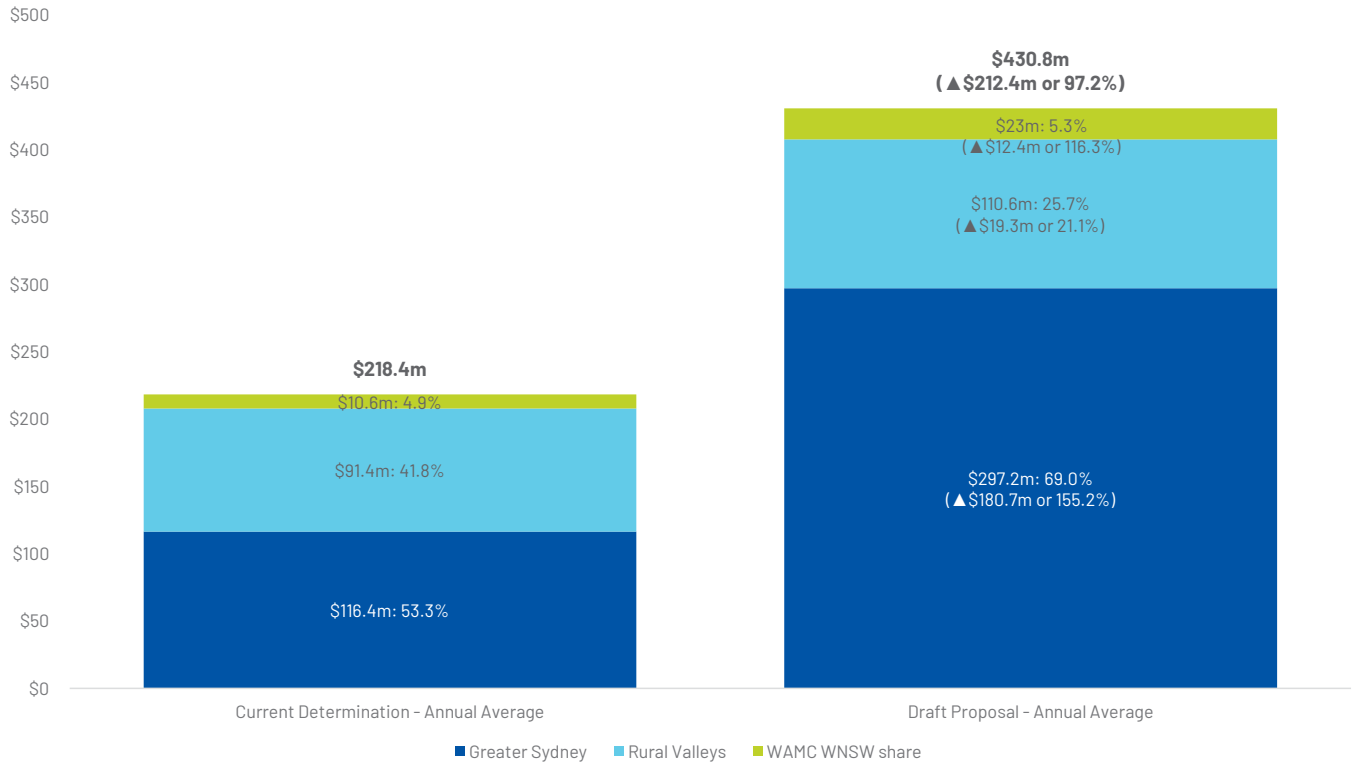
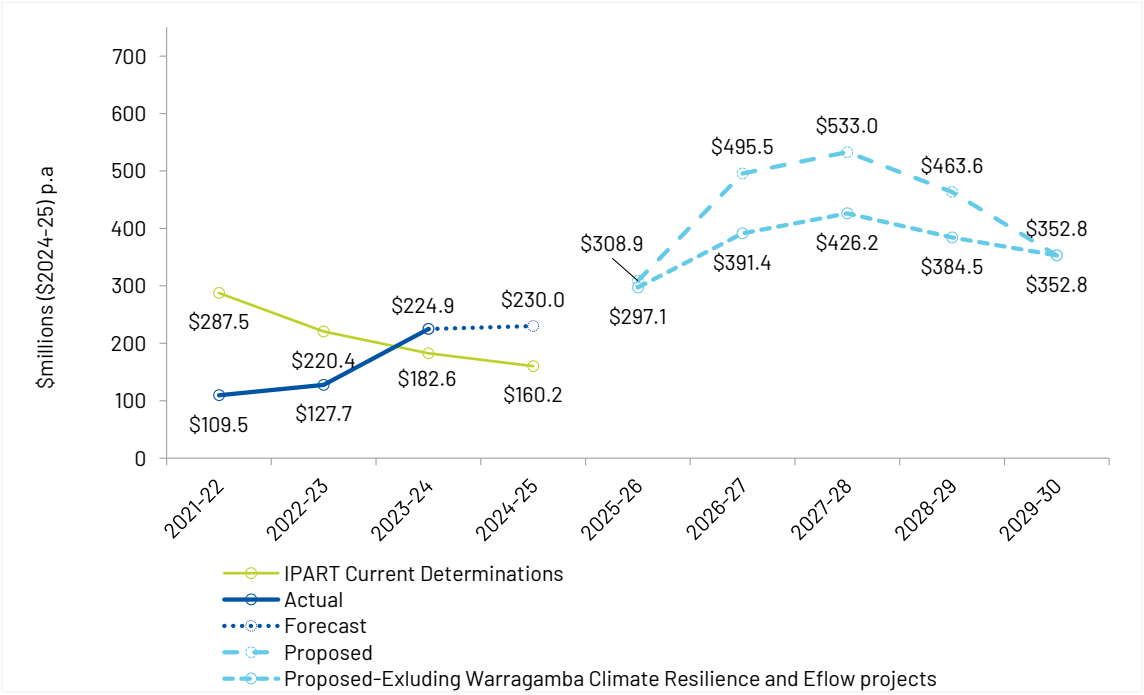


Figure 50 – Actual, allowed and forecast capex for WaterNSW ($m, $2024-25)



* Note that the IPART 2020 Greater Sydney allowance for 2024-25 equals the 2023-24 value on the basis that the deferral year (2024-25) sets a price path, noting IPART has not made a determination on the efficient expenditure allowances for that year.

* Rural valleys allowance including drought projects.

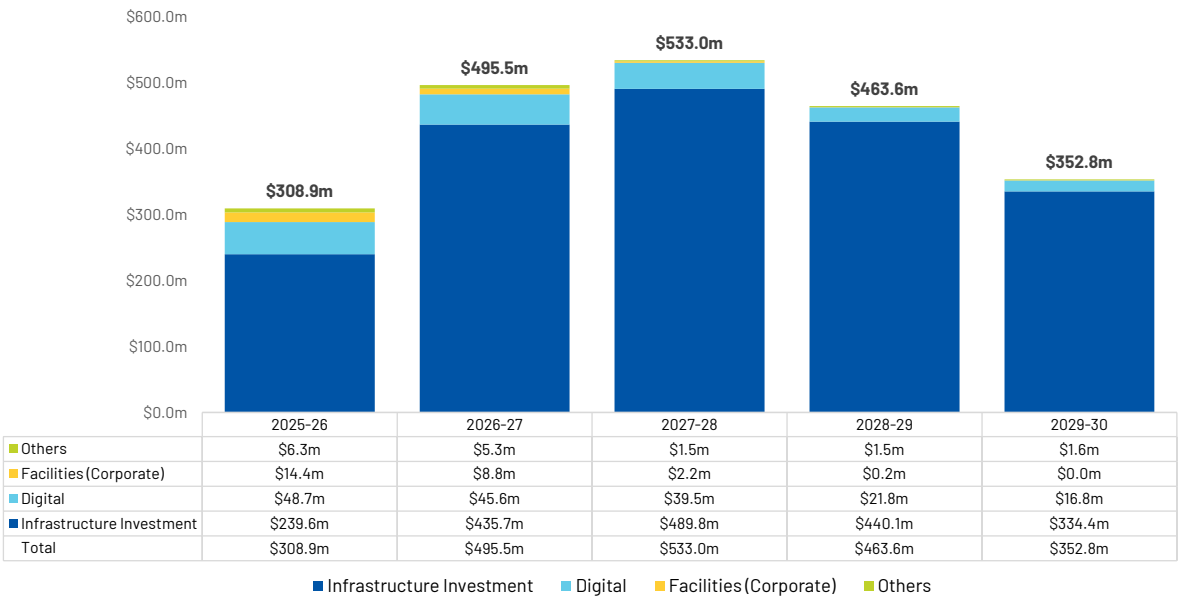
When developing our capital expenditure program for the five-year 2025 Determination period, we considered our customer feedback and strategic focus areas to be on these key areas:

- Keep local communities at front of mind as a community partner and advocate.
- Operate flexibly and plan for future generations.
- Enhance sustainable and healthy water systems and enable thriving communities.
- Improve productivity and efficiency to keep costs as low as possible.
- Invest in our assets to maintain and improve water delivery.
- Meet compliance requirements - ensure we continue to meet the intent of existing and proposed new government and regulatory obligations.
- Identify trends in customer behaviours, needs and expectations, with a focus on continuing to deliver liveability benefits to our customers.
- Address climate change – ensuring our assets deliver climate resilient water supplies, minimise flooding and bushfire risk that reduce our capability and capacity to deliver.
- As illustrated in the table and figure below, our total forecast capital program for WaterNSW over the next five years is comprised of the following investments:
- infrastructure investment ($1,939.7 million)
- digital investment ($104.3 million for bulk water, $59.2 million for WAMC WaterNSW only, and $9 million for DCCEEW/NRAR technology roadmap investments)
- facilities ($25.5 million)
- other ($16.2 million).

Table 29 – Forecast capital expenditure by category ($m, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Draft proposal - Annual average
Total capital expenditure	**$308.9**	**$495.5**	**$533.0**	**$463.6**	**$352.8**	**$2,153.8**	**$430.8**
Infrastructure investment	$239.6	$435.7	$489.8	$440.1	$334.4	$1,939.7	$387.9
Digital	$48.7	$45.6	$39.5	$21.8	$16.8	$172.5	$34.5
Facilities (corporate)	$14.4	$8.8	$2.2	$0.2	$0.0	$25.5	$5.1
Others	$6.3	$5.3	$1.5	$1.5	$1.6	$16.2	$3.2

Figure 51 – Forecast capital expenditure by category ($millions, $2024-25)



Collectively, infrastructure investment (90%) and digital investment (8%) represent 98% of the total five-year capital program. These investments are outlined in detail in Attachment 18 and Attachment 11, respectively.

Top 10 projects

The Top 10 capital projects comprise a combination of infrastructure projects in Greater Sydney and the Rural Valleys along with two Digital projects. In total, capital expenditure for the Top 10 projects is forecast at $1.3 billion ($1,273.9 million) over the next five years, or 60% of the total WaterNSW forecast capital program for the 2025 Determination period.

This highlights that over half of our forward capital program is for larger projects, many of which are policy driven, with our 'business as usual' expenditures forecast at levels consistent with current expenditure as discussed above.

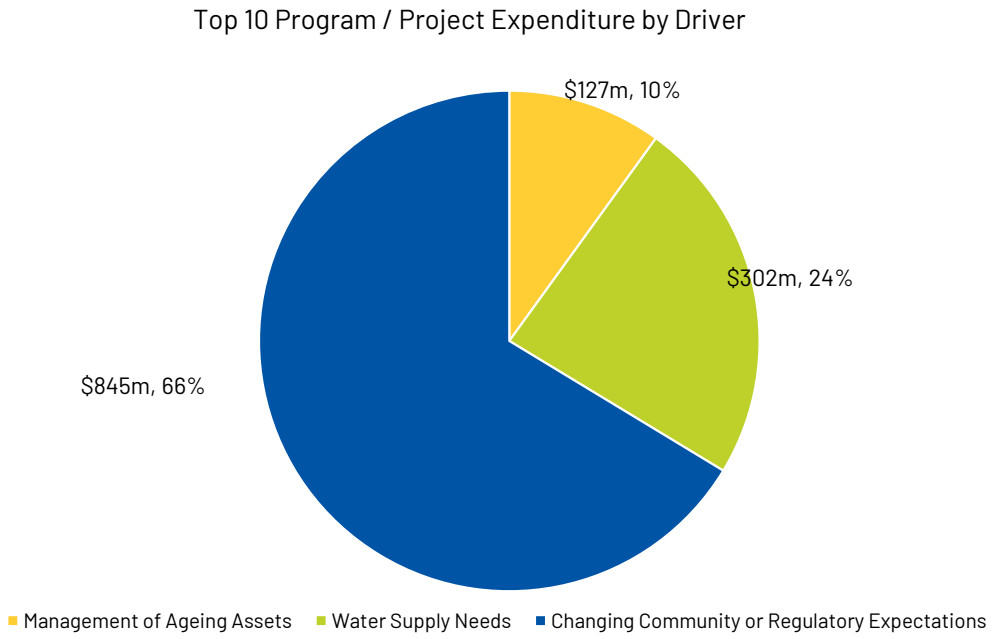
The top 10 projects based on proposed expenditure and or strategic importance are listed below and summarised in Attachment 7.

Table 30 – Top 10 WaterNSW capital projects ($m, $2024-25)

Program name	Primary Driver	Primary customer outcome	Total FY26-30
Warragamba Dam Resilience	Changing community or regulatory expectations	WNSW will provide secure and reliable water delivery	$609.1
Warragamba E-flows	Water supply needs	Sustainable land and water management	$301.8
Warragamba Pipeline Renewals	Changing community or regulatory expectations	WNSW will provide secure and reliable water delivery	$97.8
Fish Passageways	Changing community or regulatory expectations	Sustainable land and water management	$100.8
Cold Water Pollution	Changing community or regulatory expectations	Sustainable land and water management	$46.8
Cataract Dam Safety Upgrade	Changing community or regulatory expectations	WNSW will provide secure and reliable water delivery	$35.7
Oberon to Duckmaloi Stage 2 Pipe Renewal	Changing community or regulatory expectations	WNSW will provide secure and reliable water delivery	$29.2
Torriganny Weir Upgrade	Changing community or regulatory expectations	WNSW will provide secure and reliable water delivery	$29.5
Asset Lifecycle Management and Planning	Changing community or regulatory expectations	WNSW will be efficient and keep costs as low as possible	$15.4
WaterInsights	Changing community or regulatory expectations	WNSW will be efficient and keep costs as low as possible	$7.8
Total capital expenditure			**$1,273.9**

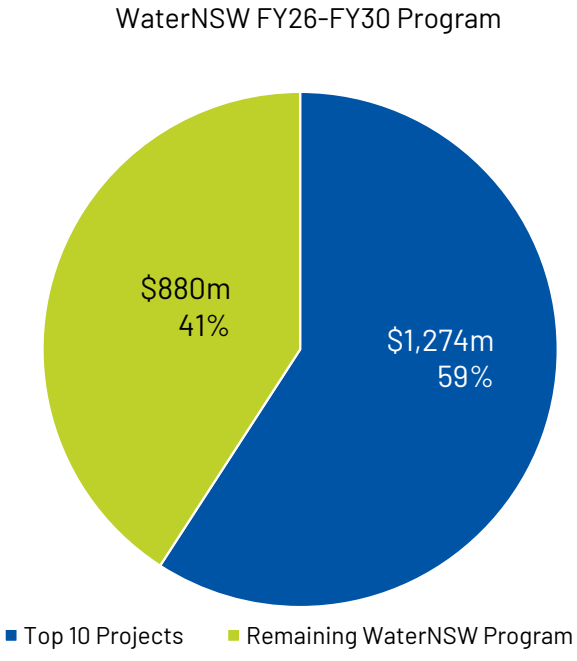
The figure below illustrates that two-thirds of the Top 10 major projects/programs are to meet the 'changing community or regulatory expectations' driver, 23% are to meet 'water supply needs' and 10% are due to 'management of ageing assets'.

Figure 52 – Top 10 Projects by primary driver



When looking at customer outcomes, the following figure illustrates that $801 million, or 62% of the Top 10 project total is to meet the customer outcome of 'WaterNSW will provide secure and reliable water delivery', followed by 'Drive sustainable water and land management' ($449 million or 35%) and 'efficiency and keeping costs low' ($36 million or 3%). This highlights that our proposed capital program is well-aligned to our customer preferences.

Figure 53 – Top 10 Projects by customer outcome ($m, $2024-25)



WaterNSW has sought to carefully consider the most appropriate implementation of these large programs/projects to balance the realisation of program/project benefits while also managing any financial impacts to our customers. We have achieved this through:

- Phased implementation of the Warragamba Dam Resilience Program – Implementation of this program will be completed over two determination periods.
- Continuation of the phased implementation of the Warragamba Pipeline renewals – WaterNSW has commenced this important renewal program, and it is proposed to continue over the next two determination periods.
- Staged the implementation of the Fishway program Through discussion with NSW Fisheries and WaterNSW customers we have staged the implementation of the Fishway program. This will result in the design and construction of five fishways over the 2025 Determination period, with design completed for a further six sites. The construction activities for those six sites are proposed to occur in the 2030 Determination period (2030-31 to 2034-35).
- Phased implementation of the Cold-Water Pollution Program – WaterNSW will complete the upgrades on the Burrendong site in FY26-30 and utilise these learnings to further inform the design (to be complete in FY26-30) and construction (proposed for FY31-35) for a further three sites.
- Phased implementation of the Oberon to Duckmaloi Stage 2 Pipe Renewals – It is proposed that this be completed in two equal phases across the next two determination periods. This will ensure that the highest priority sites can be completed to realise some of the service improvements whilst balancing cost impacts for the small customer base in Fish River.

Regulatory context

WaterNSW is a state-owned corporation established under the Water NSW Act 2014 and operates under an operating licence. Our activities are guided and regulated by the various Acts and pieces of legislation.

Our regulatory requirements serve as a valuable tool to inform the needs of investment in WaterNSW's assets. By aligning investment decisions with the regulatory standards and obligations outlined in this proposal, we can prioritise and allocate resources to address compliance gaps, improve infrastructure resilience, and enhance operational efficiency.

In addition to legislative obligations, WaterNSW is also responsible for implementing elements of NSW Government strategies such as the NSW Water Strategy, which involves restoring unimpeded fish passage to high priority weirs and addressing cold water pollution at priority dams.

WaterNSW's regulatory compliance obligations directly influence its operational costs and asset management strategies. By aligning investment decisions with applicable regulatory standards and obligations, WaterNSW allocates resources to maintain compliance, improve infrastructure resilience and enhance operational efficiency. By integrating the regulatory requirements into investment decision-making and incorporating them into the IPART pricing submission, WaterNSW can align its operational goals, asset management strategies, and financial objectives with the necessary compliance measures.

A significant portion of WaterNSW's 2025-30 capital expenditure is regulatory driven, including five of the Top 10 projects listed above.

Table 31 – Compliance-driven major capital projects ($m, $2024-25)

Project	Regulatory driver	FY26-30 expenditure
Warragamba Dam Resilience	Dams Safety Act 2015	$609m
Warragamba E-Flows	Greater Sydney Water Strategy	$302m
Fishways*	Fisheries Management Act 1994, NSW Fish Passage Strategy	$101m
Cold Water Pollution	NSW Water Strategy	$47m
Cataract Dam Safety Upgrade	Dams Safety Act 2015	$36m

* Excludes $8.0 million of renewal expenditure on existing fishways.

Historic performance

Actual and forecast capital expenditure over the current determinations for the combined WaterNSW Greater Sydney, Rural Valleys and WAMC (WaterNSW only) is expected to be $186 million (total of 2020-21 to 2024-25, $2024-25), or 19% below IPART's allowances.

For Greater Sydney, IPART allowed $572.3 million of capital expenditures in its 2020 Determination (assuming 2024-25 equals 2023-24), with actual / forecast expenditure expected to be $483.5 million, or an underspend of $89 million (16%).

The main variances between the proposed and actual capital expenditures for the current determination period are due to the following factors.

Greater Sydney

Lower than budgeted expenditure in Greater Sydney can largely be attributed to the strategic deferral of Warragamba E-Flows ($77.6 million) and delays ($85.9 million). This is partially offset by higher-than-expected expenditure due to flood recovery ($14.5 million) as a result of the March 2022 storm event and cost increases ($9.6 million).

Part of the driver for increased capital expenditure in the 2025 Determination period is the completion of deferred and delayed works from the current determination period.

Strategic deferrals and cancellations

The Warragamba Dam Raising Project, which was introduced as part of the Hawkesbury-Nepean flood management proposition was cancelled because of the government direction in 2023. The Warragamba E-Flow project was initially bundled as part of the Dam Raising project from a delivery efficiencies perspective. However, the E-Flow project is currently being delivered as a standalone project. Strategic deferrals and cancellations like this lowered actual/forecast capital expenditure by $90.3 million. In addition, Greater Sydney drought response projects were strategically cancelled due to rationalisation of scope following the onset of wetter weather conditions and storage volumes recovering.

Delays

Delays lowered actual/forecasted capital expenditure by $85.9 million.

Delays can largely be attributed to changing conditions following bushfires and flood events resulting in the lack of safe access to structures and sites, as well as the imposition of restrictions during COVID-19 which led to delays in obtaining approvals, conducting inspections and undertaking works. In addition, delays have been driven by the complexity of assessments resulting in strategic options assessment and selection. Dam Instrumentation Automation Telemetry has fallen behind schedule due to delays in the outputs from portfolio risk

assessments following a thorough review of technical scopes.

Changes in scope

Changes in scope lowered actual/forecasted capital expenditure by $10.4 million.

Renewal and replacement activities experienced changes in scope following strategic options assessment and selection as a result of the complexity of assessments. In particular, the Blue Mountains Electrical Monitoring and Control, Kangaroo Pipeline Renewals and Shoalhaven Control Gate Renewals packages were actualised based on revised scope.

Cost increases

Cost increases resulted in an increase to actual/forecast capital expenditure by $9.6 million.

Supply chain issues and labour shortages resulted in higher than anticipated costs for projects such as the Blue Mountains Electrical Monitoring and Control, Kangaroo Pipeline Renewals and Shoalhaven Control Gate Renewals.

Flood recovery

The March 2022 storm event resulted in unplanned expenditure for flood recovery efforts, increasing actual/forecast capital expenditure by $14.5m.

Rural Valleys

For the Rural Valleys, IPART allowed $365.4 million of capital expenditures in its 2021 Determination, with actual/forecast expenditure expected to be $260.1 million, or an underspend of $105.3 million (-29%).

Strategic deferrals and cancellations

Strategic deferral and cancellations lowered actual/forecasted capital expenditure by $132.4 million.

This is predominantly due to the transfer of three large infrastructure projects (Mole River Dam, Wyangala Dam Wall Raising and Dungowan Dam) with an allowance totaling $103.3 million to Water Infrastructure NSW (now DCCEEW), which were subsequently cancelled. The remaining $29.1 million can be largely attributed to the strategic deferral of the construction of fishways at Wyangala Dam, Marebone Break Regulator and Gunidgera Weir.

Delays

Delays lowered actual/forecast capital expenditure by $21.8 million.

Similar to Greater Sydney, delays experienced in the Rural Valleys can largely be attributed to changing conditions following bushfires and flood events, as well as the imposition of restrictions during COVID-19 resulting in delays in obtaining approvals, conducting inspections and undertaking works. Additionally, many valleys experienced delays due to the complexity of optioneering and condition assessments, as well as reviews of technical scopes relating to portfolio risk assessment activities following initial hydrologic and seismic hazard assessments.

Changes in scope

Changes in scope increased actual/forecast capital expenditure by $11.4 million.

This is largely due to heightened embankment failure risk for the Lake Cargelligo embankment upgrade in the Lachlan Valley, in addition to revised scope for the Copeton Dam electrical renewals following optioneering in the Gwydir Valley.

Carryover from previous determination

Projects carried over from the previous determination increased actual/forecast capital expenditure by $10.1 million. This is primarily due to the Pamamaroo Inlet Regulator Long Term Works in the Murray Valley.

Cost increases

Changes in scope increased actual/forecast capital expenditure by $14.8 million, predominantly due to the Lake Cargelligo Embankment Upgrade in the Lachlan Valley.

New projects

New projects contributed to actual/forecast capital expenditure increasing by $7.3 million.

This can be attributed to the manganese dosing plant in Fish River, the Burrinjuck Dam High Level Outlet Emergency Closure Gates Upgrade in the Murrumbidgee Valley and the completion of construction of the Chaffey Pipeline as an emergency drought response measure in the Peel Valley.

WAMC (Reference only)

Charges for activities provided by WaterNSW, undertaken on behalf of WAMC functions conferred on WaterNSW, are the subject of a separate joint pricing proposal prepared by DCCEEW, NRAR and WaterNSW.

We manage our costs via a 'whole of business' approach to deliver value to customers, and have included WAMC services and costs in this bulk water pricing proposal only so far as they provide visibility of how we manage our overall costs and activities to deliver our services.

For WAMC IPART allowed $42.5 million ($2024-25) of capital expenditures in its 2021 Determination, with actual/forecast expenditure expected to be $50.4 million ($2024-25), or an overspend of $8 million (19%).

Customer and community feedback

WaterNSW encourages a partnership with customers that will ensure collaboration, encourage involvement, communication and advocacy. To achieve this, we undertake extensive customer engagement as part of our commitment to customer service and to better understand the needs of our varied customers across NSW.

WaterNSW relied on customer feedback to drive the strategic focus for the 2025-30 capital program. Our pricing proposal is focused on delivering on the outcomes that customers value.

Our proposed capital expenditure program has been prepared in direct response to:

*** Customer Outcome 1 – Maintain downward pressure on costs to support customer affordability**

*** Customer Outcome 2 – Provide secure and reliable water delivery**

*** Customer Outcome 3 – Be open and transparent (about customer charges and WaterNSW expenditure)**

*** Customer Outcome 4 – Drive sustainable water and land management**

*** Customer Outcome 5 – Provide easy customer and community access to data and information**

*** Customer Outcome 6 – Provide good customer experiences (enabling our customers to run their businesses)**

10.4 Proposed capital expenditure – Greater Sydney

WaterNSW proposes a five-year capital expenditure forecast of $1.5 billion ($1,485.8 million) for our Greater Sydney bulk water services as illustrated in Table 32 below. Proposed capital expenditure for Greater Sydney includes investment in infrastructure assets and digital technology.

Of the total proposed capital expenditure, infrastructure projects account for $1,419.8 million as described in Attachment 18 (or 96%) of the total proposed Greater Sydney capital expenditure. Investment in digital and technology to support the business totals $49.9 million over the five years as described in Attachment 11 or 3% of the total Greater Sydney proposed capital expenditure.

The following tables illustrate the proposed capital expenditure in Greater Sydney by activity and asset class.

Table 32 – Proposed capital expenditure for Greater Sydney ($millions, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Draft proposal - Annual average
Total capital expenditure	**$164.3**	**$300.9**	**$370.8**	**$367.9**	**$281.9**	**$1,485.8**	**$297.2**
Infrastructure investment	$143.7	$284.0	$358.2	$360.3	$273.6	$1,419.8	$284.0
Digital	$13.9	$12.2	$10.5	$6.2	$7.0	$49.9	$10.0
Facilities (corporate)	$5.3	$3.4	$0.8	$0.1	$0.0	$9.6	$1.9
Others	$1.3	$1.3	$1.3	$1.3	$1.4	$6.6	$1.3

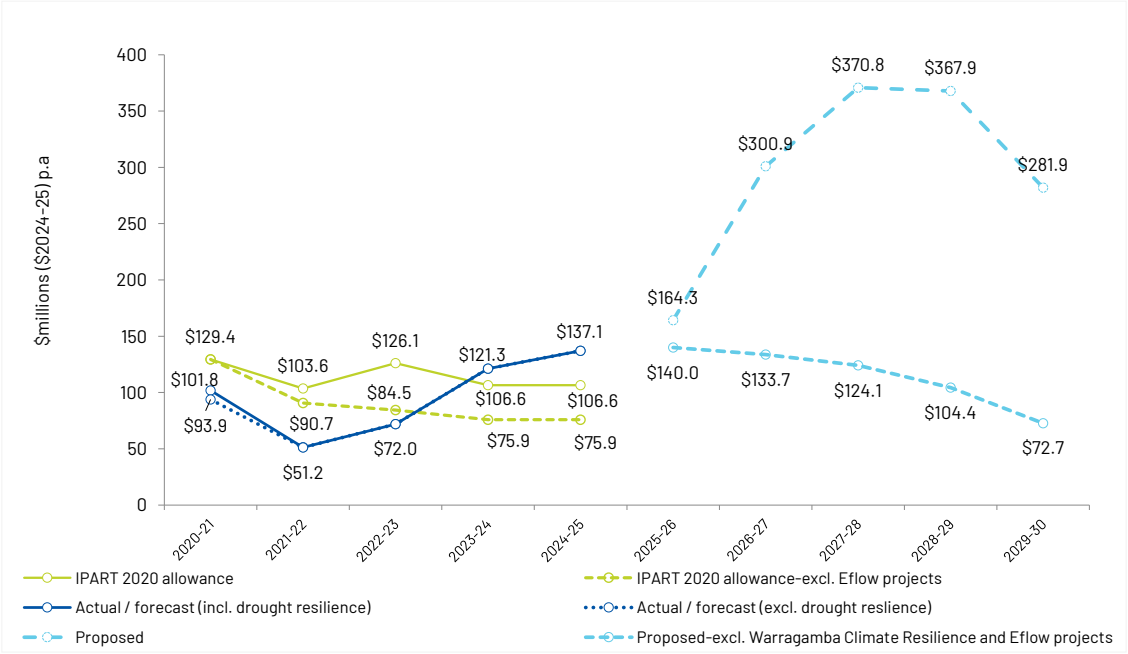
The proposed capital expenditure by asset class for Greater Sydney, including the average annual capital expenditure of $297.2 million, is shown in Table 33 below.

Table 33 – Proposed capital expenditure by asset class for Greater Sydney ($millions, $2024-25)

Asset class	FY20-24 Average allowance	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30	Proposal average $
Dams	$10.0	$36.3	$94.5	$171.5	$209.6	$226.0	$737.9	$147.6
Major mechanical and roads / Minor civil	$72.4	$42.9	$128.9	$129.6	$98.3	$17.3	$417.0	$83.4
ICT systems, systems/ controls, and lease assets	$14.1	$36.8	$28.4	$26.4	$25.0	$18.0	$134.6	$26.9
Pipelines	$7.1	$38.0	$33.4	$29.5	$25.9	$12.9	$139.7	$27.9
Meter, plant and machinery	$2.9	$5.3	$6.1	$7.3	$5.7	$5.1	$29.5	$5.9
Other storage, building, vehicles and five-yearly inspections and Desal	$10.0	$4.7	$9.2	$6.3	$3.2	$2.3	$25.8	$5.2
Non-depreciating assets (for example, land)	**$0**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	**$1.3**	**$0.3**
Total	**$116.4**	**$164.3**	**$300.9**	**$370.8**	**$367.9**	**$281.9**	**$1,485.8**	**$297.2**

Actual capital expenditure, the IPART-approved amounts for the 2020 determination and our proposed capital expenditure for the 2025-30 determination period are illustrated below.

Figure 54 – Actual, allowed and proposed capex for Greater Sydney ($m, $2024-25)



* Note that the IPART 2020 allowance for 2024-25 equals the 2023-24 value on the basis that the deferral year (2024-25) sets a price path, but IPART has not made a determination on the efficient expenditure allowances for that year.

Our proposed capital expenditure for Greater Sydney is **155%** higher than the annual average of the 2020 Determination and **117%** higher than our forecast expenditures for 2024-25 ($2024-25) when including the two major projects.

As illustrated above, the impact of the Warragamba Dam Resilience and E-flows major projects – that collectively total $911 million over five years – are significant in the context of the proposed capital expenditures for Greater Sydney. These are large one-off 'policy' or regulatory-driven projects, which otherwise mask the underlying investment proposed to maintain our critical infrastructure on a like-for-like basis when compared to the current regulatory period. The two major projects are summarised below.

Warragamba Dam resilience project

The **Warragamba Dam resilience project** at $609 million over five years is the largest single project in the WaterNSW 2025 Determination capital program. Located about 65 kilometres west of Sydney in a narrow gorge on the Warragamba River, Warragamba Dam is one of the largest domestic water supply dams in the world. WaterNSW, as dam owner of Warragamba must comply with obligations under the Dam Safety Act 2015 to ensure that any risks to the dam do not cause risks to public safety including its ability to withstand extreme flood events.

Currently, Warragamba Dam does not meet the dam safety standard set by the regulator (Dams Safety NSW). For Warragamba Dam, with its large catchment, major flood events place large loads on the dam wall. The approach to assessing and modelling those large loads on the wall includes the likelihood of a major rainfall event occurring. The project consists of construction of a concrete buttress on the downstream face and or installation of post tensioned anchors across the top of the dam.

Warragamba Dam E-flows project

The **Warragamba Dam E-flows project** at $302 million over five years is the second largest project in the WaterNSW capital program. Warragamba Dam has a major impact on river health in the lower Hawkesbury-Nepean River. Its location within the catchment results in significant environmental impacts on the river below the dam with substantially reduced stream flows for prolonged periods of time. These reduced flows contribute to low water quality and extensive aquatic weed growth and algal blooms. These conditions compromise boating, fishing and swimming uses of the waterway, as well as impacting the amenity of the river for picnicking and other on-bank recreation activities.

The E-flows project involves modifications to Warragamba Dam to enable the release of variable environmental flows which will improve river health and recreational opportunities in the Hawkesbury-Nepean River downstream of the dam. It includes a multi-level offtake tower on the upstream face of the dam to draw suitable quality water from Lake Burragorang, modifying the existing large diameter penstock to draw water from the dam and discharging at the downstream end of the hydroelectric power station, and modifications to the existing hydro-electric power station (HEPS) to allow for new pipework and valve configuration for releasing variable e-flows.

The impact of the Warragamba Dam Resilience and E-flows major projects are significant over the five-year determination period and mask the underlying investment proposed to maintain our critical infrastructure, on a like-for-like basis when compared to the current regulatory period.

On a like-for-like basis (excluding these two major projects), the WaterNSW average annual forecast capital expenditure for 2025-30 for Greater Sydney is 21% higher than the annual average of the 2020 Determination and 16% lower than our forecast expenditures for 2024-25 ($2024-25). In other words, our proposed Greater Sydney capital program is largely consistent with our current expenditures, leaving aside the needs of / need for these two major projects.

WaterNSW has illustrated our Greater Sydney capital expenditure program in Figure 54 above to both include and exclude the two major policy projects on the basis that WaterNSW has the ability to deliver these projects through external resourcing, rather than needing to 'ramp up' internal resources. Our strong procurement, contracting and partnering arrangements to access the external market suggest a high degree of confidence that these projects can be delivered on time and on budget.

This suggests that WaterNSW is in a strong position to deliver our Greater Sydney proposed capital program over the 2025 Determination period.

Water infrastructure renewal projects

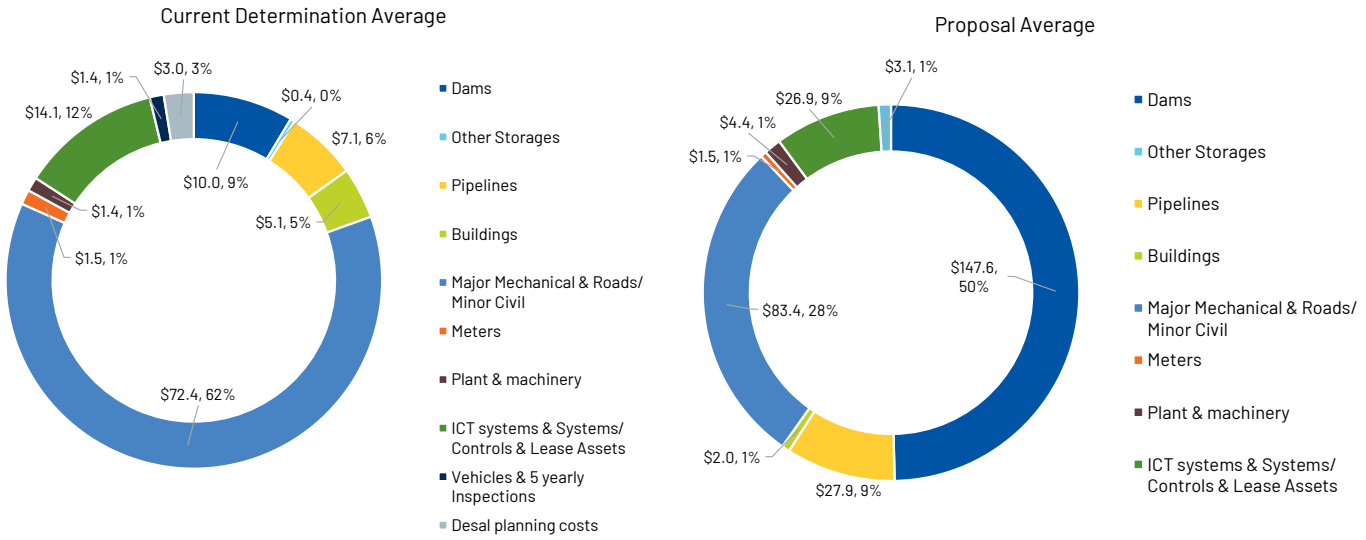
Included in the capital expenditure plan is significant water infrastructure renewal projects of $402 million over five years, or $80 million per annum (increasing from $57 million per annum in the FY20-25 allowance), such as funding for:

- Warragamba pipelines and corridor restoration
- Prospect renewals
- Shoalhaven renewals
- Blue Mountains renewals.

Proposed capital expenditure by asset class for Greater Sydney

Proposed capital expenditure by asset class for Greater Sydney in the current regulatory period and forecast for the 2025 Determination period (shown as the annual average) is illustrated below, where the proportion of costs relating to dams (dark blue band), among other changes, can be observed (dark blue band).

Figure 55 – Proposed capex by asset class – Greater Sydney (% and $m, $2024-25)



The figure above illustrates how proposed infrastructure investment in Greater Sydney (excluding digital) is spread across individual systems and compares the average expenditure per annum to the 2020-25 period. The total and rate of expenditure in Warragamba is significantly inflated relative to historic levels due to this system having the three largest projects in the 2025 Determination period (Warragamba Dam Resilience, E-flows and Warragamba pipeline and corridor works) which total more than $1 billion over the five-year period.

10.5 Proposed capital expenditure – Rural Valleys

Our proposed capital expenditure for the 2025-30 determination period across the five years for Rural Valleys is **$553 million**, which is a 21% increase from the average capital expenditure allowance determined by IPART for the 2021 Determination period.

Proposed capital expenditure for Rural Valleys includes investment in infrastructure assets and digital technology as outlined below and as discussed in this and subsequent sections.

Of the total proposed capital expenditure, infrastructure projects account for **$478.2 million** (or 86%) of the total proposed expenditure. Investment in digital and technology to support the business totals **$54.4 million** over the five years or approximately 10% of the total Rural Valleys proposed capital expenditure.

Table 34 – Proposed capital expenditure for Rural Valleys ($millions, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Draft proposal - Annual average
Total capital expenditure	**$113.8**	**$164.7**	**$136.1**	**$78.9**	**$59.6**	**$553.1**	**$110.6**
Infrastructure investment	$87.4	$143.4	$123.3	$71.4	$52.7	$478.2	$95.6
Digital	$15.0	$13.7	$11.8	$7.3	$6.7	$54.4	$10.9
Facilities (corporate)	$6.5	$3.6	$0.9	$0.1	$0.0	$11.1	$2.2
Others	$4.9	$4.0	$0.2	$0.2	$0.2	$9.4	$1.9

Table 35 – Forecast capital expenditure for Rural Valleys ($millions, $2024-25)

$millions, $2024-25	FY21-25 Average allowance	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30	Average FY26-30
Water delivery and other operations	$1.2	$2.0	$8.0	$6.6	$1.9	$1.4	$19.9	$4.0
Environmental planning and protection and delivery **	$8.9	$23.6	$45.8	$50.5	$23.1	$4.8	$147.9	$29.6
Maintenance and asset management planning	$2.1	$0.0	$0.0	$0.0	$1.6	$1.6	$3.2	$0.6
Dam safety compliance	$11.3	$13.4	$20.7	$6.7	$5.1	$4.2	$50.2	$10.0
Drought projects (three dams, and others)*	$29.9	$1.0	$1.0	$0.0	$0.0	$0.0	$2.0	$0.4
Renewals and replacement	$25.2	$47.5	$67.7	$59.3	$39.6	$40.6	$254.6	$50.9
Dam safety compliance on pre-1997 capital projects ***	$2.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Corporate systems/ lease	$10.7	$26.4	$21.4	$13.0	$7.6	$6.9	$75.3	$15.1
Total capital expenditure	**$91.4**	**$113.8**	**$164.7**	**$136.1**	**$78.9**	**$59.6**	**$553.1**	**$110.6**

* Note that there is approx. $119.4m of cumulative drought capex in the FY21-25 allowance.

** Total of $108.8 million of Fishways and $47.1 million of Cold Water Pollution projects over the five years are included in environmental planning and protection and delivery activities.

*** Dam safety compliance on pre-1997 capital expenditure of $2 million per annum in the 2021 Determination. No costs are forecast for the FY26-30 period in this category.

The main drivers of increased capital expenditure in the Rural Valleys:

- Renewals and replacement annual average expenditure is proposed to increase by $26 million per annum, or 102%.
- Environmental planning and protection annual average expenditure is proposed to increase by $21 million or 230%. The main increases are for fish passages ($100.8 million) and Cold Water Pollution expenditure ($47 million) for a combined total expenditure of $147.8 million over the five-year period. These expenditures predominantly occur in Macquarie ($47 million), Namoi ($35.2 million), Gwydir ($30.7 million), Lachlan ($27.9 million), and Murrumbidgee ($6.9 million) Valleys.
- Corporate systems for ICT systems, fleet, facilities and lease assets average expenditure is proposed to increase by $4.4 million per annum, or 41%.
- Maintenance and asset management planning average expenditure is proposed to decrease by $1.5 million per annum, or 70%.

- Dam safety compliance annual average expenditure is proposed to decrease by $1.3 million or 11%, with dam safety compliance on pre-1997 capital projects proposed to decrease from $2 million to $0.

Capital expenditure in the Rural Valleys is primarily driven by requirements in legislation, changes to our water supply works approval conditions and obligations in accordance with our operating licence.

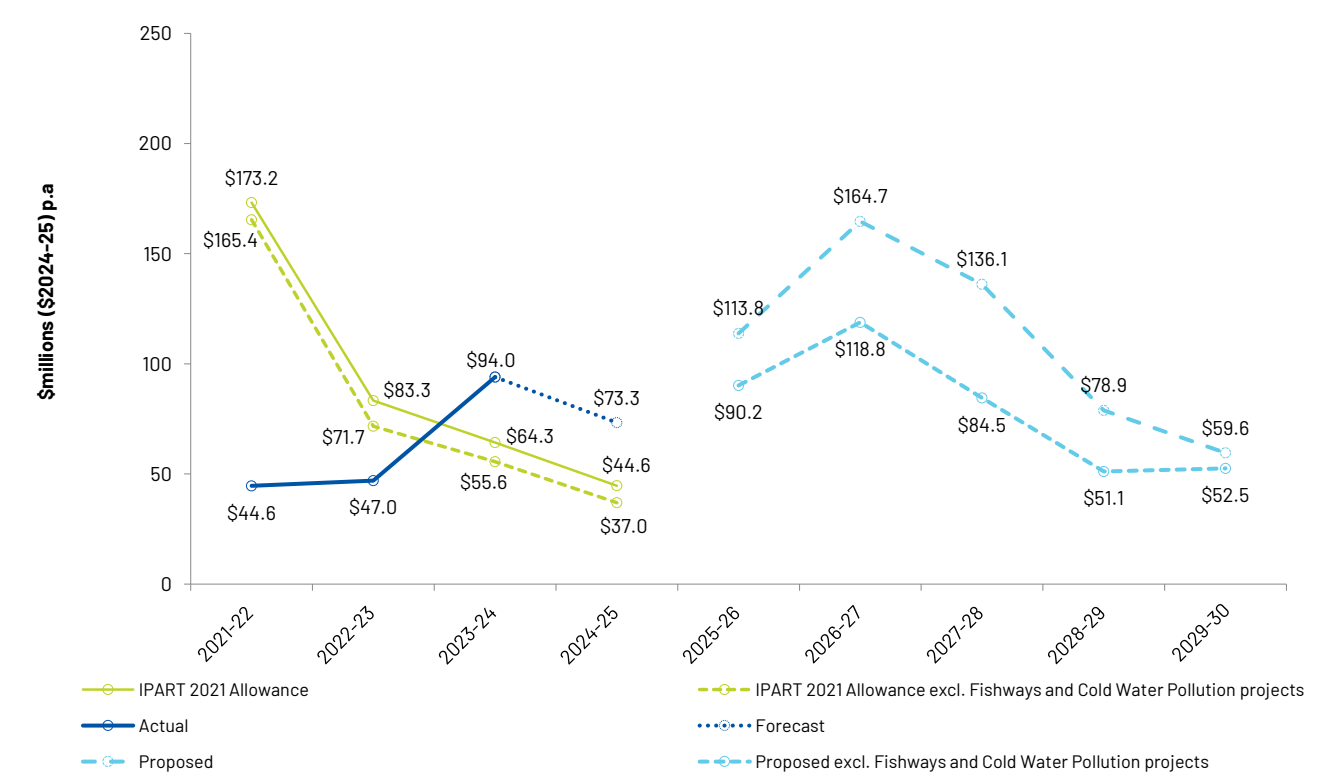
In the current and upcoming determination periods, WaterNSW's capital expenditure can be largely attributed to the following categories.

1. **Renewals and replacements of assets**
   Works required to replace or renew assets that have either failed or have aged to a condition that poses an unacceptable risk to WaterNSW operations.
2. **Environmental planning and protection**
   Fishways – complying with s.218 of the Fisheries Management Act (1994), including the delivery of fishways on modified assets, or 'offsets' as agreed with NSW Fisheries, in lieu of constructing fishways on larger dams that would have otherwise been required under dam safety upgrade projects and it is not practical to do so.

   Cold Water Pollution – complying with conditions of our dams' 'Water Supply Work Approvals' that refer to obligations established under section 100 (3) of the *Water Management Act (2000).*
3. **Water delivery and other operations**
   Works to improve the reliability and effectiveness of water delivery and operations, for example, proper calibration of a water level instrument to inform operational decisions, replacement to improve reliability, installation of gauging sites to measure flows, improvement to accuracy of position instruments.
4. **Structural and other enhancements**
   Projects that deliver safety or efficiency improvements to WaterNSW operations (for example, safety improvements, access improvements, automation of assets to reduce travel times or time-consuming manual operation, and relocation of assets that are susceptible to damage from flood events).
5. **Land, buildings and road management**
   Expenditure relating to management of buildings, land and roads owned and operated by WaterNSW.
6. **Dam safety compliance**
   Projects that are required to comply with NSW Dams Safety regulatory requirements.

Actual/forecast capital expenditure, the IPART-approved amounts for the 2021 Rural Valleys determination and our proposed capital expenditure for the 2025-30 determination period (including and excluding fish passages and Cold Water Pollution) are illustrated below.

Figure 56 – Allowed, actual and proposed capital expenditure ($m, $2024-25) – Rural Valleys



As illustrated above, the impact of the Fishways and Cold Water Pollution projects are significant in the context of the proposed capital expenditures for Rural Valleys. These are large one off 'policy' or regulatory driven projects which otherwise mask the underlying investment proposed to maintain our critical infrastructure, on a like-for-like basis when compared to the current regulatory period.

That is, on a like-for-like basis (that is, excluding the impact of the Fishways and Cold Water Pollution projects), our average annual forecast capital expenditure for 2025-30 for Rural Valleys as shown above is **4% lower** than the annual average of the 2021 Determination ($2024-25) when fishways are excluded and **8% higher** than our forecast expenditures for 2024-25 ($2024-25).

WaterNSW has illustrated our Rural Valleys capital expenditure program in the figure above to both include and exclude the two major policy projects (fish passages and Cold Water Pollution) on the basis that:

- WaterNSW has the ability to deliver these projects through external resourcing, rather than needing to 'ramp up' internal resources. Our strong procurement, contracting and partnering arrangements to access the external market suggest a high degree of confidence that these projects can be delivered on time and on budget.
- Our 'business-as-usual' expenditure, excluding the two major projects, is **5% lower** than our actual 2023-24 results, demonstrating we have the capability to deliver the program moving forward.

This suggests that WaterNSW is in a strong position to deliver our Rural Valleys proposed capital program over the 2025 Determination period.

Rural Valleys capital expenditure

The total forecast capital expenditure of **$553 million** over the 2025 Determination period is illustrated by valley in Table 36 below.

Table 36 – Rural Valleys capital expenditure by valley ($m, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total
Border	$0.7	$2.4	$2.0	$0.6	$0.6	$6.3
Gwydir	$16.2	$16.6	$26.1	$19.9	$4.1	$83.0
Namoi	$8.9	$20.2	$26.9	$5.9	$4.9	$66.8
Peel	$3.3	$2.4	$1.0	$0.9	$0.7	$8.2
Lachlan	$30.1	$37.9	$22.2	$6.7	$5.7	$102.6
Macquarie	$18.3	$29.7	$25.9	$6.4	$3.7	$84.0
Murray	$8.7	$23.1	$4.4	$3.7	$3.1	$42.9
Murrumbidgee	$10.6	$15.0	$12.0	$18.1	$8.2	$63.9
Lowbidgee	$1.4	$1.9	$4.0	$1.5	$0.4	$9.2
North Coast	$0.8	$0.8	$0.8	$0.4	$0.4	$3.1
Hunter	$9.4	$9.0	$4.1	$2.5	$1.7	$26.7
South Coast	$0.6	$0.9	$1.1	$0.5	$0.4	$3.5
Fish River	$4.7	$4.8	$5.8	$11.6	$25.9	$52.8
Total	**$113.8**	**$164.7**	**$136.1**	**$78.9**	**$59.6**	**$553.1**

10.6 WAMC (WaterNSW only) capital expenditure

Charges for activities provided by WaterNSW, undertaken on behalf of WAMC functions conferred on WaterNSW, are the subject of a separate joint pricing proposal prepared by DCCEEW, NRAR and WaterNSW.

We manage our costs via a 'whole of business' approach to deliver value to customers and have included WAMC services and costs in this bulk water pricing proposal only so far as they provide visibility of how we manage our overall costs and activities to deliver our services.

Capital expenditures for WaterNSW's WAMC services are included in the joint DCCEEW / NRAR / WaterNSW WAMC proposal and are provided here for completeness.

Proposed capital expenditure for WaterNSW's portion of WAMC services is **$114.9 million** ($2024-25) over the five years as illustrated below, which includes, among other things, the Technology Roadmap capital expenditure for the three agencies and excludes non-urban metering and costs relating to fee for service activities.

Total proposed capital expenditure for WAMC over the determination period consists of the WaterNSW expenditure as identified above plus $5.1 million of surface water capital expenditure for DCCEEW, resulting in total WAMC capital expenditure of $120.1 million over the five years (see joint WAMC proposal for more information).

Figure 57 – Allowed, actual and proposed capital expenditure ($m, $2024-25) – WAMC

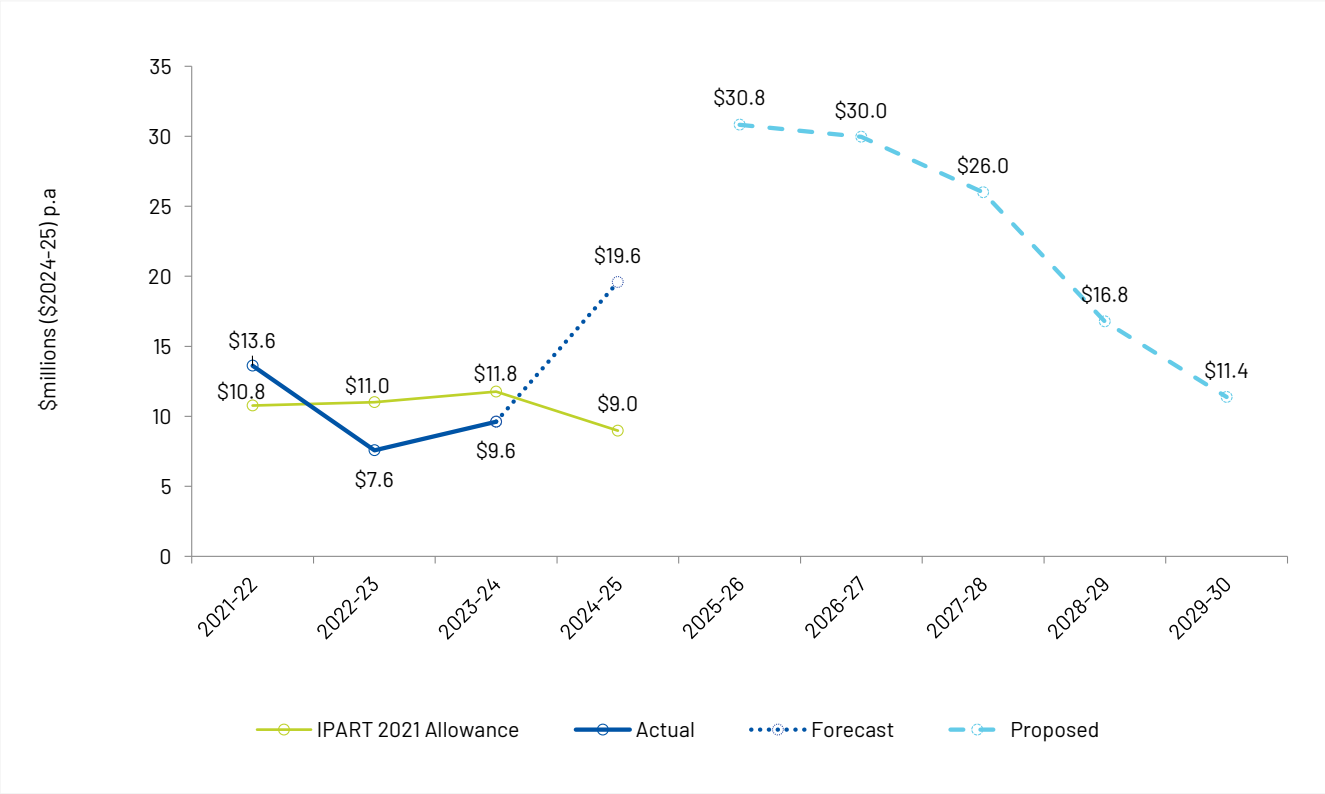


Table 37 – Proposed capital expenditure for WAMC ($millions, $2024-25)

	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Draft Proposal - Annual Average
Total capital expenditure	**$30.8**	**$30.0**	**$26.0**	**$16.8**	**$11.4**	**$114.9**	**$23.0**
Infrastructure investment	$8.4	$8.4	$8.4	$8.4	$8.2	$41.7	$8.3
Digital	$19.8	$19.7	$17.2	$8.3	$3.2	$68.2	$13.6
Facilities (corporate)	$2.5	$1.8	$0.5	$0.0	$0.0	$4.9	$1.0
Others	$0.0	$0.0	$0.0	$0.0	$0.0	$0.2	$0.0

Table 38 – WAMC capital expenditure by activity ($millions, $2024-25) – WaterNSW

	FY21-25 Average allowance	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Average FY26-FY30
Technology Roadmap	$3.3	$16.5	$18.2	$15.4	$6.6	$0.0	$56.8	$11.4
Software renewals and continuous improvement		$3.3	$1.5	$1.7	$1.7	$3.2	$11.4	$2.3
Facilities (corporate) & others		$2.6	$1.9	$0.5	$0.1	$0.1	$5.1	$1.0
Surface water monitoring	$2.7	$4.2	$4.1	$4.1	$4.1	$4.1	$20.7	$4.1
Groundwater monitoring	$4.6	$4.2	$4.2	$4.2	$4.2	$4.0	$20.9	$4.2
Total proposed capex	**$30.8**	**$30.8**	**$30.0**	**$26.0**	**$16.8**	**$11.4**	**$114.9**	**$23.0**

The main components of the WaterNSW capital expenditure shown above ($114.9 million) to be recovered through the WAMC proposal over five years include the costs of the Technology Roadmap initiatives ($56.8 million), ground water monitoring ($20.9 million), surface water monitoring ($20.7 million) and lease capex, facility management and other technology capex ($16.5 million).

10.7 Delivery of our capital program

As detailed in Attachment 18 (Chapter 6), our approach to demonstrating the third 'C' in IPART's 3Cs framework – credibility – includes improving our ability to deliver our capital program. Since the last round of IPART determinations in 2020 and 2021, several strategic improvements have been embedded into WaterNSW's capital program delivery process across three areas of focus.

- **Portfolio governance**, WaterNSW has implemented a robust Portfolio Governance Framework to support delivery of capital projects by helping streamline projects' approval process, manage risks and issues and, where necessary, escalating as appropriate. Our portfolio governance committee structure consists of two forums, Asset Quality Committee and Portfolio Governance Committee. These committees function as stage gates to ensure appropriate investment governance and endorsement for key project artefacts. They also manage portfolio risks and impacts to financial year targets.
- **Program delivery model**, including:
    - Implementation of a new Asset Renewal and Replacement (ARR) Framework consisting of an engineering and design partner and two construction partners to streamline the delivery of asset renewal works.
    - The Procurement Framework serving as a strategic avenue for projects that fall outside the scope of the ARR Framework, particularly those requiring specialist skills, or regional initiatives that may not be cost-effective under the ARR Framework. This framework operates efficiently by streamlining procurement processes based on project value.
    - Newly formed Operations Professional Services Panel for projects requiring professional services other than design (which is primarily procured via the ARR Framework). It comprises of four streams: project management, communications, capability, dam safety and engineering.
- **Program scheduling development**, WaterNSW developed a master schedule of all potential capital works considered for delivery in FY26-30. This was developed to understand durations, constraints and dependencies between projects, inform decisions about a realistic volume of work that could be designed and constructed in FY26-30 and confirm the WaterNSW resources required to manage the program. This is particularly important to ensure the deliverability of the large program.

Our focus on improving our project governance, delivery and scheduling should provide confidence to customers and IPART of our ability and commitment to deliver our proposed capital program.

10.8 Long-term investment plan – Greater Sydney

The Long-Term Capital and Operational Plan (LTCOP) for Greater Sydney outlines WaterNSW's investment drivers and projected expenditure over a 20-year horizon. It describes our approach and requirements to sustain our future operations and service delivery, recognising the challenges ahead and changing expectations from government, our customers, and the community.

The LTCOP supports the NSW Government's long-term approach to managing Greater Sydney's water services to enable a sustainable, liveable, and

prosperous city. The Greater Sydney Water Strategy (GSWS) outlined the direction and priority actions to ensure the resilience of our water supply, as well as the protection of our natural environment in the face of a growing population and changing climate.

We worked collaboratively with Sydney Water, our major customer in Greater Sydney, during the development of this plan to ensure that our respective LTCOPs and future servicing directions are aligned.

This plan is intended to inform our internal budgeting processes and Greater Sydney pricing submissions to IPART, and to provide the context for pricing and affordability discussions with Sydney Water and the NSW Government.

The Greater Sydney Water Strategy has established a clear priority for rainfall-independent sources of water for Greater Sydney in the future. Sydney Water's supply augmentation planning process and its LTCOP have maintained that focus. While all options (including surface water) were included in the long list of options under consideration, the surface water options are not featuring in the preferred list of options for the next source of water. Nevertheless, Greater Sydney will remain heavily reliant on surface water sources throughout the period of the LTCOP and beyond, and our assets will continue to play a critical role in reliability and security of supply.

Most of our assets are over 50 years old, some over 100 years. While they have served us well, and continue to do so, ongoing investments are essential to maintain safe and reliable water services in a changing climate and regulatory requirements.

Key elements of the WaterNSW LTCOP for Greater Sydney include:

- investment drivers that influence our priorities and decisions
- programs and initiatives we need to undertake to renew, enhance, and optimise the existing bulk water delivery infrastructure and its supporting systems, including for the protection of drinking water catchments
- policy and water servicing direction changes that could impact our future investment needs.

A detailed discussion of our Greater Sydney LTCOP, including critical dam safety obligations and our long-term investment projection for Greater Sydney is provided in Attachment 24.

The LTCOP has guided our investment programs over the 2025-30 regulatory period to ensure the community's longer-term needs can be met at lowest cost.

11. Rate of return

Proposed method and rate of return

The return on capital covers the cost of servicing our debt and provides a return to our shareholders for their equity investment in our business. It is calculated by multiplying the value of our regulated asset base by the rate of return on capital. WaterNSW is proposing to apply IPART's 2018 Weighted Average Cost of Capital (WACC) method for determining the rate of return on capital.[18]

The WACC is the minimum ('benchmark') rate of return an investor requires to commit capital to an investment given its risk. It is the weighted average of the required return on debt capital and the required return on equity capital.

[18] See IPART Review of our WACC method – Final Report 20018.

Why is it important?

The return on capital contributes to approximately 30% of the revenue allowance for Greater Sydney and 50% for Rural Valleys bulk water services to meet our customer and statutory obligations.

In determining the appropriate rate of return, regulators seek to set an allowance that is commensurate with the true WACC, which must be estimated because it cannot be observed directly. This ensures that customers do not pay more than the efficient cost of capital that the business must pay to finance the assets required to deliver regulated services.

- If IPART sets the allowed rate of return below the true WACC, the business may not be able to attract the capital it requires to invest in water infrastructure for bulk water services. This could encourage inefficient under-investment and negatively impact on quality-of-service outcomes for customers.
- If IPART sets the allowed rate of return above the true WACC, consumers would pay more than the efficient cost of delivering regulated services, and the business would be incentivised to over-invest.

Since neither of these outcomes would promote the long-term interests of customers, regulators seek to adopt methodologies for estimating the WACC that are as accurate as possible.

As part of IPART's methodology, market data will be updated closer to the Draft and Final Determinations, with the cost of debt allowance updated during the determination period.

Therefore, the rate of returns proposed in this section should be considered 'placeholders' as the estimates will be updated during the 2025 Determination review process.

Our rate of return proposal

WaterNSW proposes a **placeholder post-tax real WACC of 3.6%** for the 2025 Determination period for **Greater Sydney and the Coastal Valleys**.

The **placeholder post-tax real WACC for the MDB valleys is 4.3%,** which is higher due to the need to transition the current and long-term cost of debt allowances to the trailing average approach adopted by IPART in its standard method.

These placeholder WACCs represent an increase from the allowed rate of return of 3.4% for the 2020 Greater Sydney Determination and 1.8% from the 2021 Rural Valleys Determination for the MDB valleys. The increase in the placeholder estimates reflect the increase in government bond yields that have occurred since 2021.

Our proposed WACC is based on guidance from IPART in its letter to WaterNSW on 16 May 2024 on how IPART intends to calculate the WACC for the 2025 determinations.[19] In its letter, IPART confirmed that:

- IPART will apply its 2018 WACC method for all Rural Valleys from July 2025, including those that were previously subject to the ACCC WACC methodology.
- WACC calculations for all water price reviews for Greater Sydney will be based on an immediate change to a 5-year trailing average for current debt.
- WACC calculations for WaterNSW's MDBA valley prices (which have never previously been subject to IPART's WACC method) would commence a 5-year transition to a 5-year trailing average for current debt, and a 10-year transition to a 10-year trailing average for long-term debt in the first year of the 2025 price determination.

Details of our approach to the rate of return on capital can be found in Attachment 19.

[19] IPART letter to the WaterNSW CEO on 16 May2024 on WACC implementation for 2025 price review.

Warragamba Dam

Part 3

Prices to support delivery of outcomes

WaterNSW

PART 3

Prices to support delivery of outcomes

This part of our submission explains the level and structure of prices we propose, to recover the revenue requirement needed to deliver the outcomes we have agreed with our customers, under our Cost Reflective Base Case and consists of the following:

- total revenue requirement
- demand forecasts
- structure of prices
- regulatory price settings.

While these prices are a calculated result of the required revenue requirement, WaterNSW and our customers recognise this is not sustainable for our customers and alternative scenarios may be required.

12. Notional Revenue Requirement

As discussed in Section 7, WaterNSW supports the continued use of the 'building block' approach to develop our target revenue allowance. These building blocks form the regulated entity's cost base for pricing purposes, and the sum of the building blocks is called the 'notional revenue requirement', which is used by IPART to construct prices. WaterNSW's proposed revenue requirements are presented in Attachment 10.

The total revenue requirement represents the efficient costs that can be recovered by WaterNSW for the provision of monopoly services. The revenue requirement is set by IPART at efficient levels to ensure that WaterNSW can meet its legislative and regulatory obligations as well as any service standards and customer driven discretionary requirements.

Each of IPART's building blocks, and where each is located in this pricing proposal, is shown below.

Table 39 – Building blocks

Building block	Description	Section of the pricing proposal
Return on assets	Return on assets which is calculated by multiplying the value of the assets (the 'Regulated Asset Base' or RAB) by the Weighted Average Return on Capital (WACC).	The RAB is discussed in Attachment 19, including the capital expenditure assumptions. The WACC is discussed in Section 11 and Attachment 19.
Return of assets	Return of assets, also known as the regulatory depreciation allowance, is calculated by dividing the value of the RAB by the useful life of the assets.	Depreciation and asset lives are discussed in Attachment 19.
Operating expenditure	The operating expenditure allowance consists of a Base-Trend-Step forecast of the operating expenditures for regulated services.	Base-Trend-Step operating expenditure is summarised in Section 9 and discussed more fully in Attachment 8.
Tax allowance	The regulatory tax allowance is an estimate of the utility's tax liability calculated in accordance with IPART's decision on the Incorporation of Company Tax in Pricing Decisions.	The tax allowance is discussed in Attachment 20.
Working capital allowance	The working capital allowance is a nominal amount which compensates the utility for the liability that arises due to the timing differences between accounts payable and accounts receivable.	The working capital allowance is discussed in Attachment 20.
Customer charges	Individual charges to recover the notional revenue requirements.	Customer charges are discussed in Section 14 and Attachment 26.

Table 40 below outlines the annual revenue requirements across the current determinations for our Greater Sydney, Rural Valleys and WAMC (WaterNSW only) services for the current IPART determinations and the 2025 Determinations. We present for the first time a consolidated view of our allowed and proposed annual revenue requirements across our major determinations to reflect that we are one business that provides various (for example, bulk water and WAMC) services to our customers across NSW.

As illustrated below, across our Greater Sydney, Rural Valleys and WAMC (WaterNSW only) determinations WaterNSW is proposing a revenue requirement of **$3.0 billion** ($2,950.0 million) over the five-year determination period, or $590 million on average per annum. This is a **44.2%** increase on the average annual revenue requirement from the current IPART 2020 and 2021 Determinations.

Table 40 – WaterNSW annual revenue requirement by determination and in total ($2024-25)

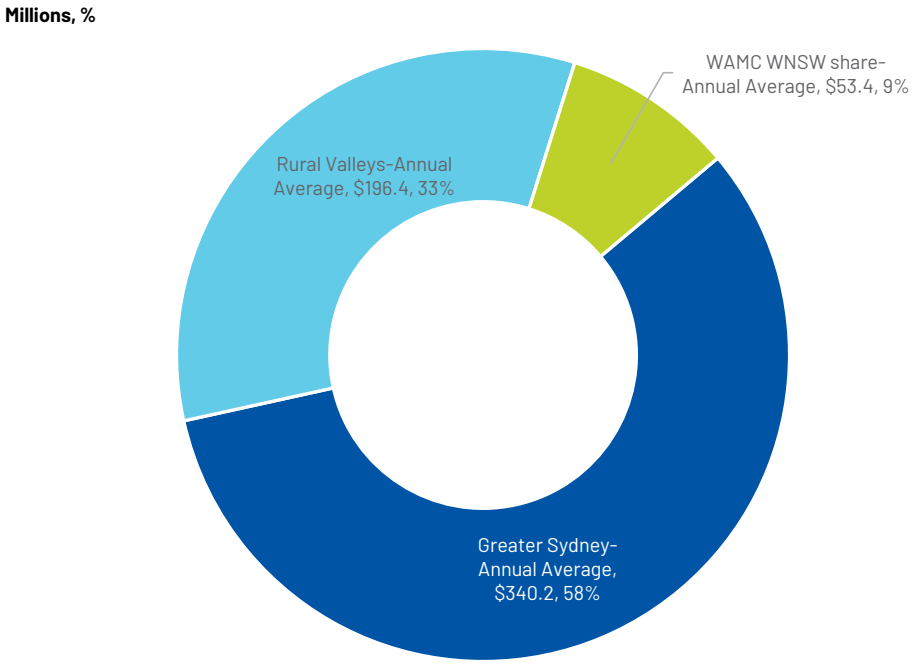
Regulatory indicators	Current determination - Annual average	Greater Sydney - Annual average	Rural Valleys - Annual average	WAMC WNSW share - Annual average	Draft proposal - Annual average	Total FY26-FY30	Annual average variance %
Total revenue requirement	**$409.1**	**$340.2**	**$196.4**	**$53.4**	**$590.0**	**$2,950.0**	**44.2%**
Operating expenditure	$197.8	$132.3	$87.4	$29.3	$249.0	**$1,245.1**	25.9%
Return of assets (depreciation)	$85.5	$89.6	$35.6	$18.2	$143.5	**$717.3**	67.7%
Return on assets	$110.1	$100.8	$64.9	$3.2	$168.9	**$844.6**	53.5%
Return on working capital	$3.4	$2.1	$1.4	$0.9	$4.3	**$21.7**	26.6%
Regulatory tax allowance	$6.9	$9.1	$3.4	$1.6	$14.0	**$70.1**	102.9%
Cost of debt true-up	$0.0	$1.3	$0.2	$0.1	$1.6	**$8.0**	n/a
FY25 true-up	$0.0	$5.1	$0.0	$0.0	$5.1	**$25.3**	n/a
ICD rebates	$2.0		$2.0		$2.0	**$10.2**	3.0%
Debt raising costs* / Volatility allowance	$1.5		$0.0		$0.0	**$0.0**	n/a
UOM adjustment	$1.9		$1.5		$1.5	**$7.4**	-21.7%
Community service obligation (CSO)**	$8.9	$1.1	$4.4	$21.5	$27.0	**$134.9**	204.1%
Regulatory indicators	**Current Determination 2024-25**	**Greater Sydney 2029-30**	**Rural Valleys 2029-30**	**WAMC WNSW share 2029-30**	**Draft proposal 2029-30**		**Variance $**
Regulated asset base (RAB) @ period end	**$4,188.9**	**$3,371.4**	**$1,676.2**	**$85.5**	**$5,133.1**		**$944.2**
User RAB @ period end	$3,158.0	$3,371.4	$1,046.5	$71.3	$4,489.3		$1,331.3
Government RAB @ period end	$1,030.9		$629.6	$14.2	$643.8		-$387.1

* Treated as opex if ACCC WACC method is used, included in return on assets if IPART WACC method is used.

** Greater Sydney CSO relates to recreational Land management. Rural Valleys existing CSO for north coast and south coast valleys. WAMC WaterNSW share of CSO is subject to change regarding DCCEEW's decision for LEW customer cost recovery.

As illustrated below, Greater Sydney represents 58% of our proposed efficient costs, with Rural Valleys (in aggregate) (**33%**) and WAMC (**9%**) representing the remainder of our proposed revenue requirement.

Figure 58 – WaterNSW annual revenue requirement by determination and in total ($2024-25)



This pricing proposal focusses on the revenue requirements for Greater Sydney and the Rural Valleys, noting that the services WaterNSW provides to WAMC are the subject of a separate joint WAMC submission by DCCEEW, NRAR and WaterNSW.

However, we have included WAMC in our consolidated revenue position in recognition that WaterNSW is a single organisation that provides various regulated services and that presenting our consolidated costs provides a clearer picture of how we operate to deliver customer value and operate efficiently across the services we provide.

More detailed information on the disaggregated revenue requirements and expenditure proposals for Greater Sydney and the Rural Valleys are contained in several attachments, including Attachment 6 (Capital expenditure), Attachment 8 (Base-Trend-Step operating expenditure), Attachment 19 (Regulatory asset base, depreciation, income tax and WACC), Attachment 10 (Revenue requirement) and Attachment 5 (Tariff structures and tariffs).

Notional revenue requirement – Greater Sydney

Our proposed Greater Sydney revenue requirement is **$1.7 billion** ($1,701.1 million) over the five-year determination period, or $340.2 million on average per annum (in $2024-25). This represents a 37.5% increase on the average annual revenue requirement from the current IPART 2020 and 2021 Determinations.

WaterNSW's proposal on the notional revenue requirement for Greater Sydney is summarised below.

- A prudent and efficient **capital expenditure program of $1.5 billion** ($1,485.8 million) over the five-year regulatory period (or $297.2 million per annum on average) (in $2024-25). This equates to an average capital expenditure increase of around $180.7 million per annum or 155.2% compared to the current period allowance.
- The Greater Sydney capital expenditure program is comprised of shorter-lived assets compared to the current period allowances,

reducing the average remaining asset life from 47.5 years to 31.9 years, and increasing the average annual depreciation allowance by $40.5 million per annum.

- An increase in proposed average **annual operating expenditure of $132.3 million per annum** (a $17.9 million increase from the $114.4 million per annum allowance in the current determination).
- $1.2 million per annum for increased Greater Sydney costs due to **increased charges** relating to WAMC metro strategy costs.
- Higher forecast (placeholder) **WACC of 3.6%** (an increase of 20 basis points from 3.4% in IPART's 2020 Greater Sydney Determination) results in an average return on capital of $100.8 million per annum, which is an 28.8%, or $22.6 million per annum, increase compared to the current determination average.
- A **cost of debt true-up** of +$1.3 million per annum.
- $11.9 million per annum of **proposed savings**, based on base year savings of $7.7 million for Greater Sydney and an efficiency target of 1% per annum cumulative savings against total operating expenditure.

The increase in revenue requirement and the average bill to Sydney Water is largely due to:

- Partially controllable activities increasing by $41 million or 18%. These include increases to operating expenditures (partially offset by cost savings), the 2024-25 true-up and depreciation on new investments.
- Largely uncontrollable activities increasing by $72 million or 31.6%. These include increases due to a higher WACC (3.6% compared with 3.4% in the current determinations), a cost of debt true-up, a higher return on capital due to increased investments, the application of CPI to 2024-25 prices and lower forecast volumes from Sydney Water leading to higher variable charges).

WaterNSW's proposed notional revenue requirement over the five-year 2025 Determination period is illustrated below and outlined in Attachment 10.

Table 41 – Notional revenue requirement – Greater Sydney ($m, $2024-25)

	FY20-25 Average allowance	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Average FY26-FY30
Operating expenditure	$114.4	$133.4	$128.1	$129.9	$134.0	$135.9	$661.3	$132.3
Regulatory depreciation	$49.1	$76.8	$85.2	$94.9	$103.3	$87.7	$447.9	$89.6
Return on capital	$78.3	$85.8	$91.2	$100.0	$109.7	$117.4	$504.2	$100.8
Return on working capital	$1.8	$2.3	$1.9	$1.8	$2.0	$2.4	$10.4	$2.1
Tax allowance	$3.9	$9.6	$9.8	$10.0	$10.5	$5.6	$45.5	$9.1
Cost of debt true-up^	$0.0	$1.3	$1.3	$1.3	$1.3	$1.3	$6.6	$1.3
FY25 true-up	$0.0	$5.1	$5.1	$5.1	$5.1	$5.1	$25.3	$5.1
Total NRR	**$247.4**	**$314.3**	**$322.5**	**$343.0**	**$365.8**	**$355.5**	**$1,701.1**	**$340.2**
CSO – Recreational land management	$0.2	$1.1	$1.1	$1.1	$1.1	$1.1	$5.4	$1.1

We note that the WaterNSW bulk water charges form a relatively small proportion of Sydney Water's overall costs (around 8%) that form the basis of Sydney Water's charges its customers.

Based on the efficient costs illustrated above, the average increase in the proposed revenue requirement in our base case compared with IPART's 2020 determination allowances results in a less than $1 per week ($42 per annum on average) increase for an average Sydney Water residential customer.

Impact of deferral year (2024-25)

As a result of the deferral of the commencement of the next determination period by one year, Greater Sydney prices were held constant from 2023-24 to 2024-25. This occurred without adjustment for the effects of inflation. WaterNSW's capital and operating expenditure allowances were not updated for the effects of inflation for 2024-25, an expenditure gap of approximately 2% per annum (the estimated rate of inflation for the March-to-March period with a one-year lag).

In order to preserve the integrity of IPART's 'real' framework, the effects of inflation do need to be included in the Greater Sydney revenue requirement from 1 July 2025. We estimate that bulk water prices for the Greater Sydney metropolitan area will need to increase by an additional 2% to account for the effects of the deferral year.

We calculate a shortfall between revenue collected in 2024-25 based on 2023-24 constant prices and WaterNSW's operating and capital spend in 2024-25, to $25.3 million in NPV terms that we have included in the required revenues for Greater Sydney over the 2025 Determination period.

Regulatory asset base and asset life

Detailed calculations of the regulatory asset base (RAB) and average asset lives are provided in Attachment 19.

The forecast value of the Greater Sydney RAB at the end of the 2025-30 determination period is $3.4 billion in 2024-25 real terms ($3.8 billion in nominal terms as shown in Table 42 below), increasing from $2.4 billion in 2025 in nominal terms.

Table 42 – RAB roll forward – Greater Sydney ($m, $nominal)

RAB Roll Forward – Greater Sydney ($millions, $nominal)					
	2025-26	**2026-27**	**2027-28**	**2028-29**	**2029-30**
Opening RAB	$2,343.9	$2,490.3	$2,777.1	$3,141.3	$3,509.4
Plus: Capex (net of cap cons)	$168.4	$316.1	$399.3	$406.1	$319.0
Less: Asset disposals	$0.5	$0.5	$0.5	$0.5	$0.5
Less: Regulatory depreciation	$80.1	$91.1	$104.0	$116.1	$101.1
Plus: Indexation	$58.6	$62.3	$69.4	$78.5	$87.7
Closing RAB	**$2,490.3**	**$2,777.1**	**$3,141.3**	**$3,509.4**	**$3,814.5**

* Estimated inflation of 2.5%

The weighted average remaining asset life for Greater Sydney is forecast at 31.9 years as shown below.

Table 43 – Average remaining asset life – Greater Sydney Base Case (years)

Average Remaining Asset life – Greater Sydney (years)						
	2025-26	2026-27	2027-28	2028-29	2029-30	Weighted Avg
Average remaining asset life *	31	31	30	30	38	31.9

* Excluding Desal and Land. Calculate as closing RAB / Depreciation during the year (new and existing assets).

As discussed in Attachment 19, the Greater Sydney capital expenditure program is attributed to shorter lived assets compared to the current period allowances, reducing the remaining average asset life from 47.5 years to 31.9 years, and increasing the average annual depreciation allowance by $40.5 million per annum.

From 2025-26, our proposed capital expenditure program is focused on the renewal of shorter-lived 'Major Mechanical & Roads/Minor Civil' assets with a 30-year useful live. In addition, the E-flows project has been attributed an asset life of 30 years in accordance with the 2020 IPART Determination. This contributes to the lower remaining asset life. Higher levels of proposed capital investment on shorter lived assets results in a higher depreciation allowance for WaterNSW to 2030 compared to the 2020-25 regulatory period.

Community Service Obligation – Recreational Lands Management

In its 2020 IPART Determination, IPART decided that the recovery of half of the costs for the management of recreational areas was to be included in regulated prices for the Greater Sydney Metropolitan area. IPART considered that some of Water NSW's management activities for recreational lands benefits the health of the catchment, and regulated customers, while other activities benefit the broader community.

IPART concluded that the costs of recreational lands management in Greater Sydney should be shared between users and the Government on a 50:50 basis. The Government component was intended to be funded by Government to represent the benefits of this activity on the broader community, however WaterNSW was unable to secure the required funding from the NSW Government per the 2020 IPART decision.

WaterNSW is forecasting an increase in the CSO payment to fund the Government's component of recreational lands management of approximately $1.1 million per annum over the 2025-30 determination period. This represents an increase from the current CSO of $188,000 per annum ($2019-20) over the current determination period.

Rural Valleys – Notional revenue requirement

WaterNSW is proposing a revenue requirement for Rural Valleys of **$981.9 million** over the 2025-30 determination period, or $196.4 million per annum ($2024-25), which represents an **$68.3 million** per annum increase to the aggregated revenue requirement for the rural valleys. The drivers of the higher revenue requirement are summarised below. Our Rural Valleys revenue requirement is outlined in Attachment 10..

Table 44 – Notional revenue requirement by year – Rural Valleys ($m, $2024-25)

	FY21-25 Average allowance	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-FY30	Average FY26-FY30
Operating expenditure*	$61.2	$83.8	$84.7	$87.6	$89.6	$91.5	$437.2	$87.4
Regulatory depreciation	$28.6	$28.0	$32.7	$36.8	$39.5	$41.2	$178.2	$35.6
Return on capital	$29.9	$56.9	$61.4	$66.3	$69.2	$70.4	$324.3	$64.9
Return on working capital	$0.6	$0.6	$0.6	$1.1	$1.9	$2.6	$6.8	$1.4
Tax allowance	$2.4	$2.7	$2.9	$3.2	$3.7	$4.5	$16.9	$3.4
Cost of debt true-up*	$0.0	$0.2	$0.2	$0.2	$0.2	$0.2	$0.8	$0.2
ICD rebates	$2.0	$2.1	$2.0	$2.0	$2.1	$2.1	$10.2	$2.0
Debt raising costs (treated as opex)	$1.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
UOM costs	$1.9	$2.0	$1.9	$1.8	$1.8	$0.0	$7.4	$1.5
Volatility allowance	$0.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Total notional revenue requirement	**$128.1**	**$176.1**	**$186.4**	**$199.0**	**$207.8**	**$212.6**	**$981.9**	**$196.4**

* Treated as opex if ACCC WACC method is used, included in return on assets if IPART WACC method is used.

As illustrated above, the average annual revenue requirement over the 2025 Determination period for the Rural Valleys is $68.3 million, which is 53.3% higher than the average during the 2021 Determination period. The drivers of the increase are summarised below.

- By far the most significant driver of the annual revenue increase is the increase in the return on capital, driven by a higher WACC (4.3%) compared to the 2021 Determination (1.8%) that has contributed to this building block component increasing by $35 million per annum on average, or 117%. The increase is driven by macroeconomic factors outside of WaterNSW's control.
- $26.3 million per annum increase in operating expenditures as discussed in Section 9 and Attachment 8.
- Higher return of capital (depreciation) of $7.1 million per annum arising from higher than forecast capital expenditures over the 2021 Determination period.
- Higher return of RAB of $34.9 million per annum arising from higher than forecast capital expenditures over the 2021 Determination period.
- $10.9 million per annum of proposed savings, based on base year savings of $7.7 million for Rural Valleys and an efficiency target of 1% per annum cumulative savings against total operating expenditure from WaterNSW's cost transformation program.

Attachment 10 provides additional detail on the user share and government share revenue requirements.

Cost share ratios

WaterNSW notes that our customers have highlighted concerns with the existing cost shares, suggesting that the user share has increased over time. They have highlighted concerns over water users funding activities of a public policy nature (for example, environmental planning and protection activities such as fish passages where customers argue government should contribute all or a higher share of these costs.

The user shares of cost drivers for operating and capital expenditures arising from the 2018 IPART Cost Share Report as part of IPART's 2019 review have been applied to calculate the user and government revenue requirement for the Rural Valleys under WaterNSW's Cost Reflective Base Case. Under the IPART report, the majority of costs are allocated to customers.

This includes IPART's existing cost shares for pre-1997 dam safety legacy costs which are 100 percent borne by government, and some environmental costs (for instance, fish passages, carbon neutrality, cold water pollution) and dam safety costs, which are split between customers (80%) and the government (20%). IPART's current cost shares are provided in Attachment 25.

WaterNSW has set out two scenarios based on customer feedback whereby the cost shares are revised. These are provided in Attachment 25.

Regulatory asset base – Aggregated Rural Valleys

The following tables summarise the regulatory asset base (RAB) roll forward calculations in nominal and real dollars for the combined rural valley RABs. For the avoidance of doubt, there is a RAB for each valley that forms the basis of the valley-based revenues and prices. The aggregated RAB values sown below are presented to illustrate how, in total, the proposed RAB values have changed since the 2021 Determination.

The RABs for the 2025 Determination are calculated in a two-step approach, with Step 1 being the RAB roll forward from the start to the end of the 2021 Determination period (in nominal terms) and Step 2 being the RAB rolled forward from the start to the end of the 2025 Determination period (in $2024-25) as summarised below.

Table 45 – RAB roll forward – Rural Valleys ($ nominal)

Rural Valleys	Step 1 - RAB Roll Forward (nominal)				
000'	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Opening RAB	$920,776	$971,560	$1,046,886	$1,129,050	$1,225,747
+ Capex/additions	$54,081	$39,364	$45,057	$81,334	$73,319
- Depreciation	$18,644	$23,899	$26,825	$28,857	$30,499
- Disposals	$20,285	$587	$225	$225	$225
+ Indexation	$35,632	$60,448	$64,158	$44,445	$37,869
Closing RAB	**$971,560**	**$1,046,886**	**$1,129,050**	**$1,225,747**	**$1,306,210**

As illustrated above, the aggregated Rural Valley RAB increased from $0.97 billion at the start of the 2021 Determination period and is proposed to increase to $1.3 billion at the end of 2024-25. As illustrated above, the aggregated rural valley RAB increased from $0.97 billion at the start of the 2021 Determination period and is proposed to increase to $1.3 billion at the end of 2024-25. This forms the basis for the opening RABs for the 2025 Determination.

There are two significant asset disposal events in the current 2020-25 period.

In 2020-21, $19.9 million of drought assets was transferred to Water Infrastructure NSW under a Ministerial Transfer Order. This disposal has been included as a RAB disposal in the RAB roll forward calculations.

In addition, $3.8 million of assets was written off due to technical difficulties associated with the Burrendong Cold Water Pollution Curtain. The impact of this write off has not been considered in the RAB roll forward in line with IPART's simplified RAB disposal rules.

Table 46 – RAB roll forward – Rural Valleys ($2024-25)

Rural Valleys	Step 2 - Forecast RAB ($2024-25)				
000'	**2025-26**	**2026-27**	**2027-28**	**2028-29**	**2029-30**
Opening RAB	$1,306,210	$1,391,238	$1,522,248	$1,620,592	$1,658,949
+ Capex/additions	$113,819	$164,668	$136,149	$78,868	$59,559
- Depreciation	$28,565	$33,433	$37,580	$40,285	$42,107
- Disposals	$225	$225	$225	$225	$225
+ Indexation	$0	$0	$0	$0	$0
Closing RAB	**$1,391,238**	**$1,522,248**	**$1,620,592**	**$1,658,949**	**$1,676,176**

As illustrated in Table 45 the proposed aggregated Rural Valley RAB increases from around $1.3 billion at the start of the 2025 Determination period to a closing RAB of $1.7 billion at the end of 2029-30 (in $2024-25). In real terms, the proposed closing aggregated RAB increases by approximately 28% from the start of the 2025 Determination period, with capital expenditures being only marginally higher than regulatory depreciation over the period (in $2024-25).

More details on the RAB calculations are provided in Attachment 19. Details on the capital expenditures are provided in Section 10 and Attachment 6.

Existing community service obligations

Over the current determination period, prices in the North Coast and South Coast valleys have remained constant in real terms, increasing only by inflation. WaterNSW is proposing to retain the current price levels in real terms due to social considerations and affordability concerns for these customers. WaterNSW notes that consideration of affordability for other customers is an issue for this review as the pass through of the full notional revenue req is not sustainable for many customers.

WaterNSW has calculated that it will require an additional $4.4 million per annum in Community Service Obligation (CSO) subsidy payments from current levels by the end of the next determination period (the 2029-30 financial year) to recover its prudent and efficient user share of costs. This is due to declining customer numbers and average water sales and the increased cost of compliance and infrastructure in these valleys. The calculation of the new CSO payments and associated inputs are shown in the tables below. Additional information on this matter can be found in Attachment 10.

Table 47 – Community service obligation for North Coast ($000s, $2024-25)

North Coast ($2024-25, $000)	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30
Revenue from full cost recovery tariff	$284	$634	$1,416	$3,162	$7,062	$12,557
Amount recovered from charges (assume no price increase from 2024-25)	$127	$127	$127	$127	$127	$636
Subsidy	**$157**	**$507**	**$1,288**	**$3,034**	**$6,935**	**$11,921**

Table 48 – Community service obligation for South Coast ($000s, $2024-25)

South Coast ($2024-25, $000)	2025-26	2026-27	2027-28	2028-29	2029-30	Total FY26-30
Revenue from full cost recovery tariff	$688	$1,138	$1,880	$3,106	$5,132	$11,943
Amount recovered from charges (assume no price increase from 2024-25)	$417	$417	$417	$417	$417	$2,083
Subsidy	**$272**	**$721**	**$1,463**	**$2,689**	**$4,715**	**$9,859**

13. Demand forecasts

WaterNSW's proposed customer numbers, entitlements and forecast water usage are provided in Attachment 21. WaterNSW's proposed water usage over the 2025 Determination period is provided below.

Table 49 – WaterNSW average annual water usage volumes (ML)

WaterNSW Average Annual Volumes - Proposal (ML)				
Volumes (ML)	**Current determination**	**Proposal**	**Average variance ML**	**Average variance %**
Greater Sydney				
Volumes forecast – Sydney Water	574,669	487,973	-75,696	-13.2%
Volumes forecast – Council customers	6,569	4,878	-1,691	-25.7%
Rural Valleys				
Volumes forecast – 20-year rolling average	3,964,658	3,729,520	-235,138	-5.9%
WAMC Water management				
Volumes forecast – Regulated	3,996,622	3,792,642	-203,980	-5%
Volumes forecast – Unregulated*	993,355	1,156,546	163,191	16.4%
Volumes forecast – Groundwater*	1,050,692	863,024	-187,668	-17.9%

* WAMC Unregulated and Groundwater usage forecasts have taken into account non-urban metering reform impact.

As illustrated above, forecast water usage (or demand) is proposed to decrease on average for Sydney Water (-13.2%), other Greater Sydney customers (-25.7%), Rural Valleys (-5.9%) and WAMC customers (-5% on Regulated, 16.4% on Unregulated and -17.9% on Groundwater). Everything else being equal, variable charges would increase for each of the services over the 2025 Determination as variable revenues are recovered over a smaller base, thereby increasing unit charges.

Forecasts for Greater Sydney and Rural Valleys are discussed below (WAMC forecasts are discussed in the joint DCCEEW / WaterNSW / NRAR WAMC pricing proposal).

Greater Sydney

We propose to maintain the approach to forecasting water usage from the 2020 Determination, including the detailed bottom-up methodology applied by Sydney Water as a starting point for our largest customer to which adjustments for matters such as losses are incorporated.

The forecasts for the 2025 Determination for Sydney Water are proposed to be updated using estimates for the Sydney Desalination Plant new operating rules and any expansion.

Our forecasts for Greater Sydney are detailed in Attachment 21 and summarised below:

- **Forecast customer numbers** for Greater Sydney fixed charge calculations are largely static from the 2020 Determination. Based on the current determination assumptions, WaterNSW forecasts the following customer numbers in the Greater Sydney region; Sydney Water Corporation, Wingecarribee Shire Council, Shoalhaven City Council, Goulburn Mulwaree Council, six raw water customers, 53 unfiltered customers.
- **Forecast water usage** for Sydney Water is on average 13% lower than the 2020 Determination, as illustrated in Table 48, largely reflecting Sydney Water's expectation of relatively more of its bulk water needs being sourced from the Sydney Desalination Plant rather than WaterNSW. The forecast water usage from Sydney Water for the proposal period is net of 51.2 gigalitres per annum on average being sourced from Sydney Desalination Plant. Everything else being equal, the lower expected bulk water for Sydney Water results in an 18% annualised increase in variable charges to Greater Sydney customers (from $78.22/ML in 2024-25 to $176.70/ML in 2029-30) as WaterNSW variable revenues are recovered over fewer megalitres of water.

Rural Valleys

We propose a number of changes from previous forecasting methodologies for the Rural Valleys determinations including:

- **Usage forecasts (Rural Valleys)** – We propose to use the updated 20-year rolling average to set the opening assumption for water usage for 2025-26 prices, then move to **annual forecasts** of water usage as part of our proposed revenue cap. This will provide higher confidence in the usage forecasts based on a shorter-term view of storage levels and inflows as WaterNSW targets the recovery of IPART's allowed revenues, including targeting a zero under or over recovery balance. This is discussed in greater detail in Attachment 13.
- **WaterNSW has explored a more sophisticated approach to forecasting water usage** that incorporates climate data and more recent data associated with in customer usage. The results are encouraging and will be advanced in the leadup to the 2030 Determination. The results strongly suggest increased forecasting confidence over a shorter (one-year) forecasting window. This has provided valuable input to our proposed implementation of the revenue

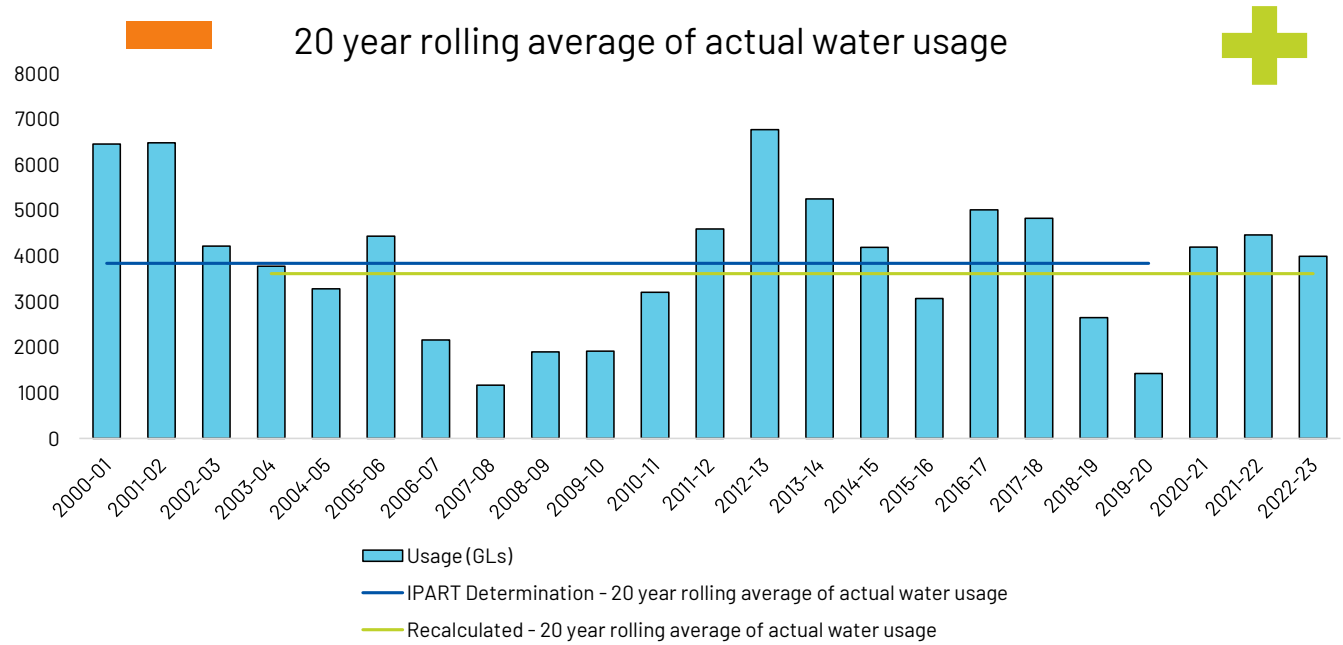
cap where prices are reset annually based on, among other things, a forecast for the upcoming regulatory year.

Importantly, the modelling highlights that the 20-year rolling average is not an accurate forecasting tool for water usage over a five-year period. WaterNSW will continue to explore whether more sophisticated modelling, combined with more recent climate and usage data, can provide a more accurate alternative for forecasting usage over five years. In the interim, we propose to move to annual forecast updates as part of our proposed revenue cap as discussed above.

- **Forecast entitlement numbers** for Rural Valley fixed charge calculations are largely unchanged from the 2021 Determination. Forecast water usage for the Rural Valleys is 3,729,520 ML, net of 523 ML of Aboriginal Cultural water usage in Murrumbidgee. This is a decrease of 235,138ML or 5.9% from 3,964,658 ML in the 2021 determination.
- **Water usage forecasts** – as outlined in Attachment 21, changes in the 20-year rolling average usage range from -1.3% in north coast to -18.9% in Macquarie in the northern valleys and range from -3.3% in Murrumbidgee to -18% in Lachlan in the southern valleys. These 20-year rolling average usage decreases result in variable charge annualised increases ranging from 19% in the Hunter Valley to 38% in the Peel Valley in the northern valleys, and around 19% in the southern valleys (excluding Lachlan due to change from 40% fixed to 80% fixed tariff).

The updated 20-year rolling average for water usage using IPART's methodology updated with 2022-23 actual volumes in the Rural Valleys is illustrated below.

Figure 59 – IPART's 20-year rolling average of water usage for WaterNSW



The updated 20-year rolling average is 5.9% (excluding Lowbidgee where fixed charges are at 100%) lower than that used in the 2021 Determination, placing upward pressure on variable charges.

14. Tariffs and tariff structures

Introduction

WaterNSW considers that the form of control and tariff structures are inextricably linked. As discussed in Section 7, WaterNSW proposes introducing a revenue cap as the form of control for the 2025 Determinations for Greater Sydney and Rural Valley bulk water services.

Our proposed revenue cap incorporates a side constraint to manage short-term pricing volatility for customers. The design features, assessment of the risk sharing, and detailed customer and community feedback associated with a revenue cap are discussed in Attachment 13.

The structure of WaterNSW's prices has implications for how WaterNSW recovers the efficient costs of providing bulk water services and how customers are charged for these services. To set prices, the revenue requirement for WaterNSW's efficient costs, as discussed in the previous section, is converted into prices based on the tariff structures that are in place. The proposed tariff structures are based on a revenue cap being introduced as the form of control and would need to be revisited if IPART does not approve our recommendation on this matter.

Key problems for customers under existing tariff structure

Our approach to tariffs structures is discussed in Attachment 5. In this attachment, we discuss that the current high variable charge structure has unintended consequences:

- 40% of costs are currently allocated to customers by entitlement holding, while 60% of costs are allocated to customers by historic water usage.
- The historic usage allocation of 60% of costs is an arbitrary allocation – customers do not have the same usage profile (for various reasons, voluntary and involuntary), and our costs are predominantly fixed (in the order of 90-95% fixed in most valleys).
- High-use customers cross-subsidise low-use customers for no other reason other than they use more water when it is available.
- The tariff structure calculations result in high-use customers paying variable charges that are 4-5 times higher than the General Security fixed charge.

The current tariff structure also results in highly unstable bills for larger customers who contribute to the majority of the costs and rely on our infrastructure over the longer term. In contrast, low-use customers, short-term customers, and sleeper licences inequitably realise a benefit if they do not use their allocation under the current structure.

As discussed in Section 7, options available to address volume volatility fall into two broad categories:

1. Increase fixed charges to align with our predominantly fixed cost structure.
2. Move to revenue cap form of control.

During our engagement process, our customers were generally supportive of the logic of pursuing higher fixed charges in order to be a financially sustainable business. However, some were not supportive of the step change in fixed charges under a price cap, particularly in times of drought and low water usage that would be associated with a higher fixed pricing structure.

That feedback has weighed strongly on WaterNSW's proposal to propose a revenue cap as the form of control and to maintain the fixed proportion of tariffs at the current levels, with only two exceptions (Lachlan Valley and Licensed Environmental Water (LEW) as discussed below), rather than to increase fixed charges under the current price capping arrangements.

We consider moving to a revenue cap form of control while maintaining the current fixed proportion of

tariffs to be a pragmatic approach to addressing volume volatility that provides WaterNSW with an opportunity to recover our efficient costs, while responding to customer concerns over pricing volatility, particularly in times of low water availability and WaterNSW being able to recover more than IPART's notionally allowed revenues.

Fixed and variable charges for customers in Lachlan Valley

Through our engagement processes, we engaged extensively with the Lachlan Valley to discuss the tariff arrangements that best meet their needs. WaterNSW provided analysis of the potential price impacts of increasing the fixed charges to our customers to assist with their analysis.

Through this engagement, Lachlan Valley has advised that, following extensive engagement with customers in the valley, it seeks to increase the fixed proportion of tariffs in the valley from 40% fixed to 80% fixed and to support the move to a revenue cap.

Based on our customer engagement, WaterNSW proposes to increase the fixed proportion of prices to Lachlan Valley to 80% from 1 July 2025.

Licensed Environmental Water (LEW)

WaterNSW also proposes to move the Licensed Environmental Water (LEW) holders to a 100% fixed tariff. This is on the basis that high-use customers should contribute to a fair proportion of costs and that the current system penalises LEW holders for using more water and results in unstable long-term bills.

The benefits of moving LEW holders to a fully fixed charge include greater cost reflectivity, more stable and predictable prices, lower long-term bill impacts for the environment, fairer and more equitable across the customer base and sends a clear price signal on the cost of services. The approach also lines up with more closely with their budgeting process and provides greater certainty of costs for this purpose. The approach to charging for LEW holders is discussed in Attachment 5.

Greater Sydney pricing structures and prices

Greater Sydney

Contingent on a revenue cap being introduced as the form of control, our proposed tariff design for Greater Sydney includes the following features:

- Maintain the current fixed proportion of tariffs in Greater Sydney at 80%.
- Maintain the current Sydney Desalination Plant charging mechanism whereby variable charges are reset under specific conditions but correct the current anomaly that does not allow adjustment of 'mandatory' supply of water from SDP to Sydney Water if storage levels are above 60%.
- Maintain the current Shoalhaven transfer scheme charging framework (noting we propose a variation to the forecast $/ML as discussed in Attachment 27).
- Apply an equivalent energy cost pass-through charging methodology to recover the benchmark efficient energy costs of the Warragamba Deep Water Pump Station, as is currently done for Shoalhaven Transfer Scheme Pumping (discussed further below). Under the Greater Sydney Drought Response Plan (and as contemplated in the Raw Water Supply Agreement), WaterNSW is required to operate the Warragamba Deep Water Pump Station (DWPS) when Warragamba Dam drops to critical levels within the DWPS operating range.

As discussed in Attachment 21, water usage is expected to reduce for Sydney Water by 13% over the period due primarily to the additional volumes anticipated by the continued operation of the

Sydney Desalination Plant outside of drought conditions (that is, when storage levels are above 70%). This forecast does not include the effects of an SDP expansion that we propose is best addressed as a regulatory change event (see Attachment 27). Given the uncertainty over SDP volumes, WaterNSW proposes a 'true-up' for SDP charges as discussed in Section 7.

In setting prices at the 2021 Determination, IPART adopted price structures that it considered cost reflective. This meant IPART set access charges to recover efficient fixed costs[20] and usage charges to recover efficient variable costs. [21]

WaterNSW proposes to maintain the pricing structures for Greater Sydney customers (noting this is contingent on a revenue cap being adopted for Sydney Water).

Proposed prices for Sydney Water

Table 50 – Proposed revenues and prices for Sydney Water ($m, $2024-25)

$millions	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	$2023-24	$2024-25				
Fixed charge	$182.6	$203.3	$233.2	$267.4	$307.1	$352.2
Variable charge ($/ ML)	$78.2	$102.04	$117.05	$134.28	$154.04	$176.70
Volumes (ML-determination/ proposal)	574,669	500,336	502,576	508,875	489,298	493,779
Revenue from fixed charge	$182.6	$203.3	$233.2	$267.4	$307.1	$352.2
Revenue from variable charge (determination/proposal)	$45.0	$51.1	$58.8	$68.3	$75.4	$87.3
Total revenue from tariff (smoothed)	**$227.6**	**$254.4**	**$292.0**	**$335.8**	**$382.5**	**$439.5**
Revenue from tariff – annual change (%)		12%	15%	15%	14%	15%

* The fixed and variable charges for 2023-24 are held constant in 2024-25 as specified in IPART's decision to accept the water utilities' request to defer the new determination by one year.

Bill impact for Sydney Water customers

A higher proposed revenue requirement combined with lower forecast water volumes is leading to projected annualised bill increases of 14% for Sydney Water.

As illustrated below, our proposed prices would result in less than a $1 per week (that is, 80 cents per week, or $42 on average per annum) increase to a typical Sydney Water residential customer's bill in the final year of the determination FY2029-30, enabling us to provide bulk water services that meet our regulatory and legislative obligations and community expectations at the lowest possible sustainable cost. [22]

[20] Fixed costs are those that do not vary over the short-term and do not change with the amount of output produced. Access charges are paid by customers regardless of the amount they consume

[21] Variable costs are assumed to be those that change with the amount of water usage. Usage charges are paid by customers and applied to the amount of water they consume

[22] Assumes WaterNSW's costs represent approximately 8% of Sydney Water's total costs as stated by IPART in the 2020 Determination. The actual percentage may change dependent on Sydney Water's notional revenue requirement which will only be ascertainable at the conclusion of IPART's concurrent review process. The calculation is based on the average bill of an individually metered residential property.

Table 51 – Bill impact for Sydney Water's end use customers – Base Case ($2024-25)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	Average FY26-FY30
Revenue requirement increase to provide bulk water services to Sydney Water ($m)	NA	$67.0	$75.1	$95.6	$118.5	$108.1	$92.8
Sydney Water customer numbers	2.1m	2.2 m	2.2 m	2.2 m	2.2 m	2.2 m	2.2 m
Incremental change attributable to WaterNSW ($/customer/year)	N/A	$30	$34	$43	$54	$49	$42

Source: WaterNSW analysis

We believe that WaterNSW's costs as a proportion of Sydney Water's total costs remains largely consistent with the 2020 Determination of approximately 8%.[23]

Proposed prices for councils, and raw and unfiltered water customers

The following table provides the consolidated revenues and forecast water usage for council customers. Individual charges and bill impacts are provided in Attachment 27. Revenues from council customers are forecast to annualised increase of 13% from 2024-25.

Table 52 – Proposed revenues for council customers ($2024-25)

$millions	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
	$2023-24	$2024-25				
Volumes (ML-determination/ proposal)	6,569	4,878	4,878	4,878	4,878	4,878
Revenue from fixed charge	$1.2	$1.4	$1.6	$1.8	$2.1	$2.4
Revenue from variable charge (determination/proposal)	$0.4	$0.3	$0.4	$0.4	$0.5	$0.6
Total revenue from tariff (smoothed)	$1.6	$1.7	$2.0	$2.3	$2.6	$3.0
Revenue from tariff – annual change		7%	15%	15%	15%	15%

The pricing structures for councils and raw and unfiltered water customers are proposed to remain consistent with the overarching tariff structure that applies to other Greater Sydney customers (that is, 80% fixed and 20% variable).

Charging mechanism to pass through efficient cost of the Shoalhaven Transfer Scheme operation

One of the nominated pass-through events proposed by WaterNSW is for the cost of the Shoalhaven Transfers Scheme when operational. Rules are established in the Water Sharing Plan for the Greater Metropolitan Region Unregulated River Water Sources 2023 to ensure there is sufficient

[23] This percentage may change dependent on Sydney Water's notional revenue requirement which will only be ascertainable at the conclusion of IPART's concurrent review process.

water available in the Greater Sydney storages for Sydney's drinking water during times of limited supply. WaterNSW may transfer water from Lake Yarrunga in the Shoalhaven River Gorge Water Source and Lower Kangaroo River Water Source to the Upper Nepean and Upstream Warragamba Extraction unit in Greater Sydney if:

- the level of water from Lake Yarrunga is above 55.34 meters in elevation in relation to the Australian Height Datum, and
- the total volume of water in the Greater Sydney storages is less than 75% of the total active storage capacity of the storages.

WaterNSW must stop the transfer from the Shoalhaven system if:

- the level of water from Lake Yarrunga is above 55.34 million AHD, and
- the total volume of water in the Greater Sydney storages is less than 75% of the total active storage capacity of the storages.

WaterNSW must stop the transfer from the Shoalhaven system if:

- the level of water in Lake Yarrunga is one metre or below full supply level for Tallowa Dam or less,[24] or
- the total volume of water in Greater Sydney storages is at least 80% of the total active storage capacity of the storages, and
- during extreme drought conditions (when dam levels drop to 30%), WaterNSW is able to draw additional water from the Shoalhaven transfer scheme and lower the level in Tallowa Dam to three metres below the full supply level.

WaterNSW proposes to maintain IPART's current approach to the cost pass-through mechanism for the Shoalhaven transfer scheme and to update the benchmark electricity costs based on recent forecasts. The operation of the Shoalhaven transfer scheme is dependent on dam levels in accordance with the Greater Sydney Water Strategy plan and therefore the trigger is outside of Water NSW's control. The pass-through mechanism also recognises the uncertainty associated with forecasting the incidence of the transfers and how much water is required. It also provides a signal to Sydney Water about the costs of supply augmentation in times of increased water scarcity.

WaterNSW engaged Frontier Economics to forecast the benchmark costs of electricity for the Scheme, should it become operational, as summarised below. A more detailed calculation of our proposed benchmark costs of electricity for the Scheme is provided in Attachment 27.

Table 53 – Proposed peak and off-peak benchmark electricity costs for the Shoalhaven Transfer Scheme ($2024-25)

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Total off-peak $/MWh	$161.30	$155.47	$152.17	$145.65	$139.63	$135.66
Total off-peak $/ML	$316.15	$304.72	$298.25	$285.47	$273.68	$265.89
Total peak $/MWh	$370.55	$349.81	$339.76	$325.79	$313.30	$303.54
Total peak $/ML	$726.29	$685.63	$665.92	$638.55	$614.07	$594.93

[24] The requirements for the transfers are that the level of water must be equal to or greater than 55.34 metres in Lake Yarrunga, which equates to one metre below full supply level for Tallowa Dam.

Charging mechanism to pass through efficient cost of Warragamba Deep Water Pump Station

In accordance with the Greater Sydney Drought Response Plan (and as contemplated in the Raw Water Supply Agreement), should the level in Warragamba Dam drop below critical storage levels that are within the DWPS operating range, WaterNSW shall operate the Warragamba Deep Water Pump Station, which has a maximum capacity of 1,000 ML/day, made up of 250 ML/day for each of the four pumps.

WaterNSW is proposing that IPART apply a similar charging mechanism to that of the Shoalhaven Transfers Charging Scheme (including the same benchmark costs of electricity as summarised above), to pass on the efficient energy costs associated with the operation of the Deep Water Pump Station if it becomes operational.

The Deep Water Pump Station is a key operational asset and is assumed to be available in order for WaterNSW to meet the requirements of the Raw Water Supply Agreement, the objectives of the Greater Sydney Drought Response Plan, and our operating licence requirements in terms of continuity of supply and performance criteria.

Rural Valleys pricing structures and prices

Our tariff design proposal, discussed above and in Attachment 5, is a responsible and balanced approach to managing volume volatility that targets the tariff arrangements for Licensed Environmental Water (LEW), while also incorporating our other customers' preferences regarding maintaining the current proportion of fixed charges in recognition of the financial impacts in times of low water availability.

Rural Valleys proposed charges and bill impacts – Cost Reflective Base Case

The resultant bill impacts for small, medium and large sized customers by valley are provided in Attachment 26 for our Cost Reflective Base Case – our complying proposal.

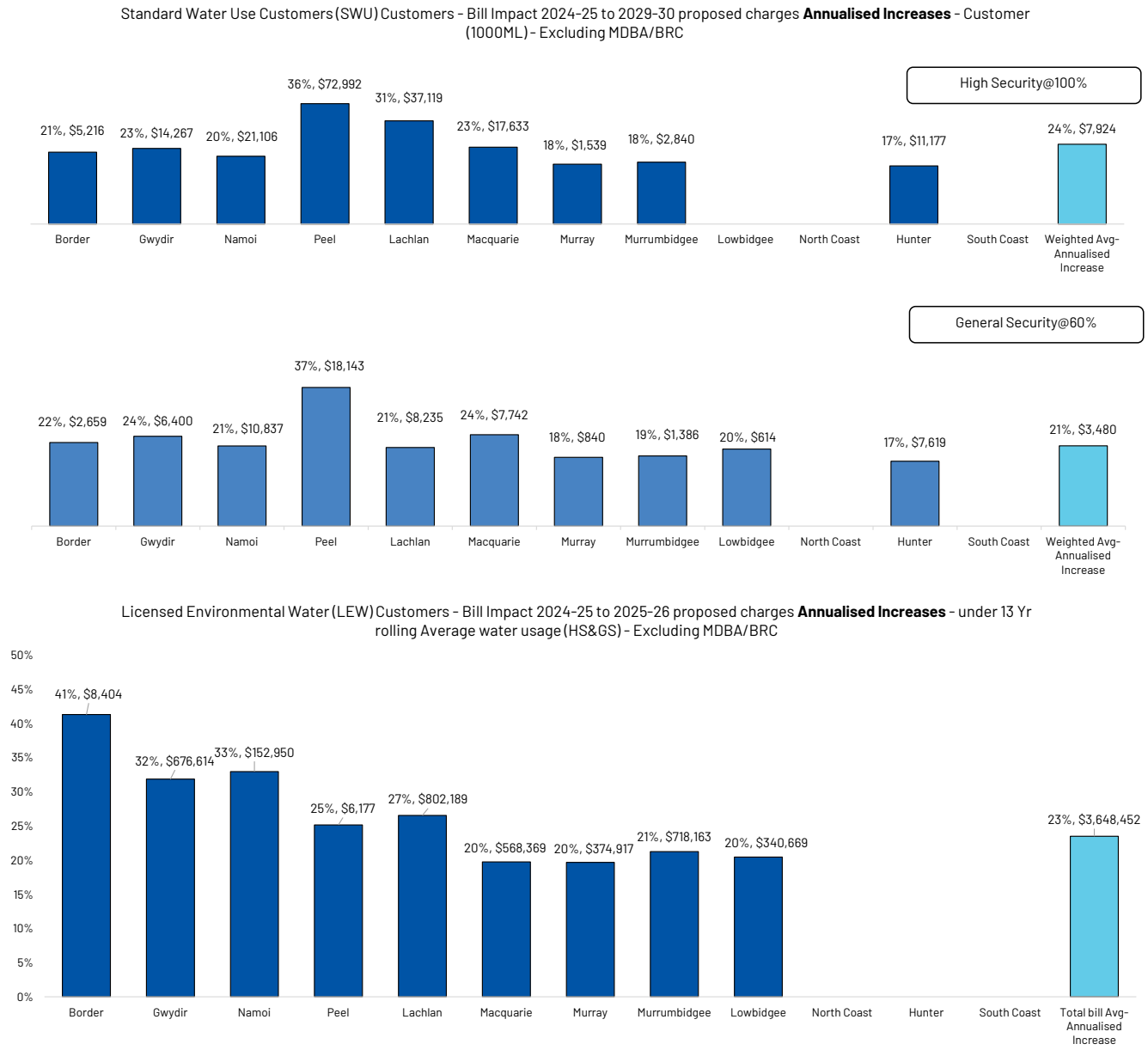
The following bill impact analysis assumes an updated 20 year rolling average (using actuals 2003-04 to 2022-23), high security premium, and entitlement data from 2023. The 20-year rolling average is forecast to decline by 235 gigalitres per annum to 2030, which will lead to an annualised increase in variable charges of approximately 23% per annum on average across the Murray-Darling Basin (MDB) and Hunter valleys compared with the 2021 Determination (excluding Lachlan, which moved from 40% to 80% fixed tariff).

These range from a 19% annualised increase in Hunter to a 38% annualised increase in Peel in the northern valleys and a 19% annualised increase in the southern valleys.

On weighted average, **high security customer bills are expected to increase by 24% on an annualised basis** (excluding the impact of inflation), with a total average increase per annum of $7,924, assuming 1,000 ML of entitlements held &100% usage), with bill impacts ranging from a 17% annualised increase to a 36% annualised increase in the Murray-Darling Basin (MDB) valleys.

Similarly, **general security customer bills are expected to increase by 21% on an annualised basis** (excluding the impact of inflation), with a total average increase per annum of $3,480 (assuming 1,000 ML of entitlements held and 60% usage), with bill impacts ranging from a 17% annualised increase to a 37% annualised increase in the Murray-Darling Basin valleys.

Figure 60 – High security and general security customer bill impact 2024-25 to 2029-30 assuming 100% and 60% water usage (%)



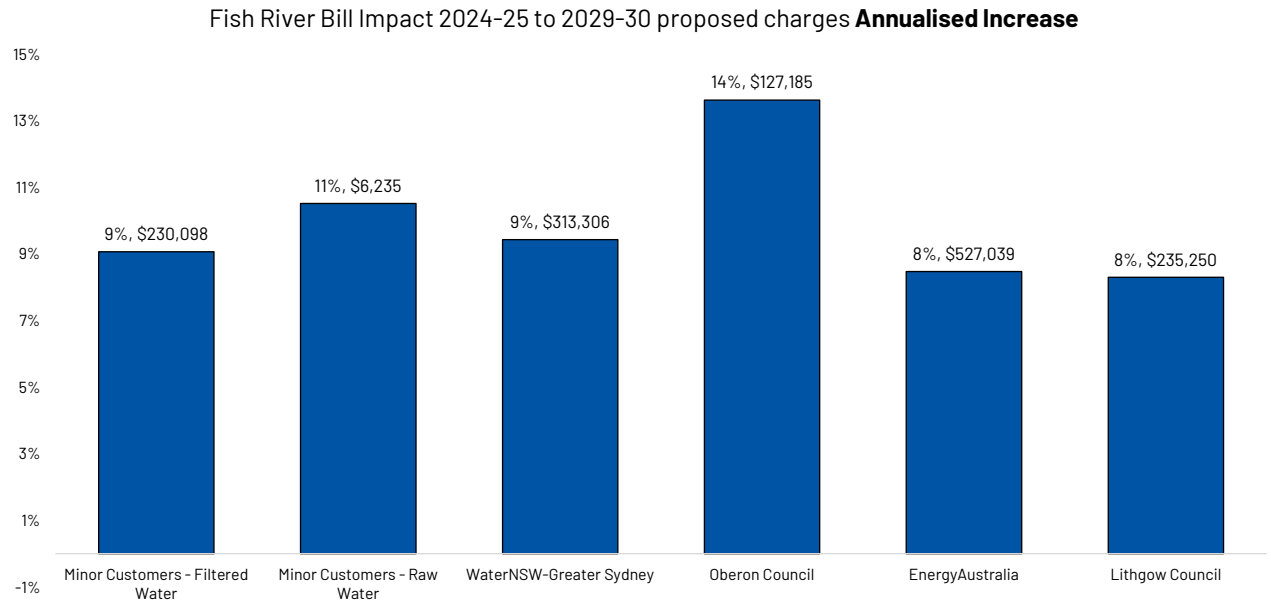
* Assumes no price increase for North Coast and South Coast customers from 2024-25. LEW do not currently hold entitlements in coastal valleys (with the exception of environmental supplementary water in the Lowbidgee. Note: Lowbidgee environmental supplementary licensed water is not impacted by the proposed changes tariff structure changes, as these licences will continue to be subject to the Lowbidgee 100% fixed charges)

WaterNSW notes that our proposed Rural Valley prices are based on the incremental costs of complying with the new operating licence being recovered across all customers. This was because the timing of the final licence conditions and visibility of the likely compliance costs was not available in sufficient time to consult with our customers on this matter before our pricing proposal was finalised.

Through our stakeholder engagement, some customers have highlighted that Local Water Utilities (LWU) are the 'impactors' for the majority of the incremental costs and, as such, the LWUs should be charged directly for many of the increases. WaterNSW suggests that this matter be included in IPART's Issues Paper, so that stakeholder views can be considered by IPART in its final decision. Further discussion of this is provided in Attachment 25.

Fish River

Figure 61 – Fish River customer bill impact 2024-25 to 2029-30 (%)



The Cost Reflective Base Case results in a weighted average price increase across Fish River of approximately 9% on an annualised basis (plus inflation). For Oberon, whose charges are not at cost reflective levels as IPART applied a discount IPART in the 2021 Determination to incentivise WaterNSW to address water quality issues (which have subsequently been addressed), the increase would be 30% in Year 1 followed by 10% per annum increases in Years 2-5.

Rural Valleys proposed charges and bill impacts – Alternative scenarios

As discussed, starting on page 9 of this proposal, we acknowledge that IPART will need to consider our funding requirements and – at the same time – consider customer affordability. [25]

To assist IPART in assessing prices that take into account the social impacts of the determination on the community, we have also provided three alternative scenarios that have the potential to achieve a more balanced outcome for our Rural Valley customers.

The three alternative scenarios reflect reductions to our Cost Reflective Base Case and may, after further negotiation with IPART and the NSW Government, achieve a more appropriate balance between stakeholders.

From a customer's perspective, each of the three alternative scenarios is based on the premise that bulk water price increases are capped at **15% per annum** (plus inflation) to take account of affordability.

Striking the right balance is challenging when having regard to:

1. What our customers can afford (recognising the complexity in distinguishing homogenous customer segments amongst our customers, or within valleys).

[25] Section 15 of Part 3, Division 5 of the *Independent Pricing and Regulatory Tribunal Act 1992* sets out the matters to be considered by the Tribunal in making determinations and recommendations under this Act. Section 15 (k) refers to the Tribunal having regard to the social impact of the determinations and recommendations.

2. What the lowest sustainable costs are, and what is financially sustainable for WaterNSW.
3. What is appropriate for the NSW Government (as both our shareholder and a customer).

We have based our 15% per annum (plus inflation) price cap on regulatory precedent, including the following from IPART's 2006 Determination for State Water, where IPART capped State Water prices at 15 % per annum cap in real terms for general security customers using long-term allocation levels for the Peel, North Coast, South Coast and Hunter Valleys). In making this decision, IPART stated the following:

In relation to State Water, the Tribunal's findings and decisions in relation to the regulatory approach and price structure are to:

- Set prices such that the bill for a General Security customer who extracts water at the average valley rate (relative to their licensed entitlement) will, on average, increase by **no more than 15 per cent per annum in real terms** over the 2006 determination period. [emphasis added]"

The alternative scenarios are discussed in Annexure B. Rural Valley prices for the alternative scenarios based on a 15% per annum (plus inflation) capping arrangement are provided in Attachment 26.

Annexure A – Indices of tables and figures

Index of tables

Index of figures

Annexure B – Alternative scenarios

Alternative scenarios to assist IPART in assessing affordability for rural customers

We appreciate that IPART, after applying its building block framework, is required to provide sufficient funding to WaterNSW to ensure we remain financially sustainable to meet our regulatory and legislative obligations and customer requirements, while also having regard to customer affordability.

The role of the alternative scenarios

The three alternative scenarios recognise that, in a high inflationary and cost of living environment, all stakeholders may need to absorb some level of cost or price adjustment, preferably without a significant increase in borrowings, which creates risk to WaterNSW's financial sustainability. These scenarios present the basis upon which a 'balanced' outcome is more likely to be found.

WaterNSW recognises the challenge that the current economic and fiscal environment presents in determining fair and affordable charges for customers, within the current economic regulatory framework.

This is why we recommend that IPART, having strong regard for our customers' feedback and submissions on this proposal, engage jointly with WaterNSW and the NSW Government in an effort to collaboratively work towards finding the right balance when forming its independent view of rural bulk water charges.

For the Rural Valleys, we have provided **three alternative scenarios** in addition to our complying Cost Reflective Base Case to assist IPART when it seeks to address both these potentially competing objectives. [26]

[26] Section 15 of Part 3, Division 5 of the Independent Pricing and Regulatory Tribunal Act 1992 sets out the matters to be considered by the Tribunal in making determinations and recommendations under this Act. Section 15(k) refers to the Tribunal having regard to the social impact of the determinations and recommendations.

Balancing these competing objectives will require IPART to assess:

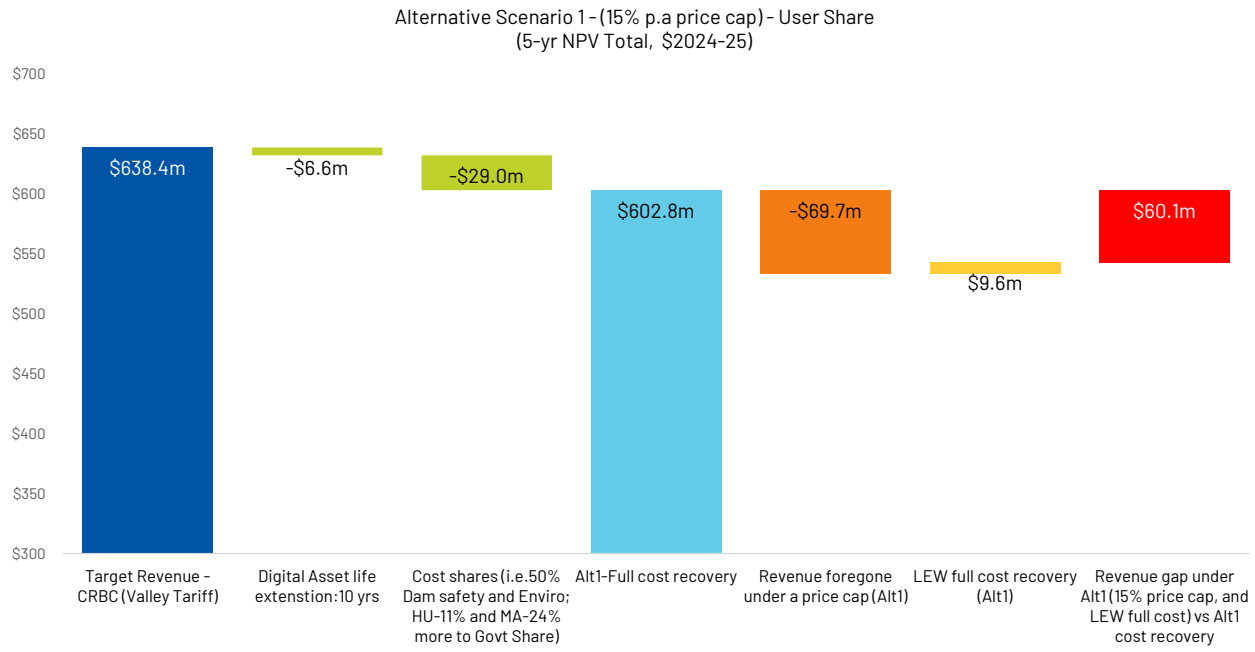
- What are the lowest sustainable costs and what is financially sustainable for WaterNSW
- What our customers can afford (recognising the complexity in distinguishing homogenous customer segments amongst our customers, or within valleys)
- What is appropriate for the NSW Government (as both our Shareholder and a customer)

The three alternative scenarios reflect reductions to our Cost Reflective Base Case and may, after further negotiation with IPART and the NSW Government, achieve a more appropriate balance between stakeholders. Each scenario **assumes at 15% per annum (plus CPI) price ceiling** plus other adjustments as discussed below.

Alternative scenario 1 – Extend asset lives and reduce user shares

- **A price ceiling of 15% per annum** (plus inflation) to take account of affordability.
- **ICT asset lives extended from 7 to 10 years** to better reflect the expected life of our digital investments and thereby reducing short-term pricing impacts for customers.
- **Reducing the user share for the Environmental and Planning and Dam Safety cost share categories to 50% (from 80%)** to reflect what we heard regarding the fairness and equity of customers funding certain policy-driven environmental investments plus other minor adjustments for dam flood mitigation in two valleys.
- This results in a **residual funding shortfall of $60 million** on the user share revenue requirement over five years compared to the Cost Reflective Base Case to manage the financial risk to WaterNSW of not receiving the required funding to meet customer statutory obligations.

Figure 62 - Alternative scenario 1

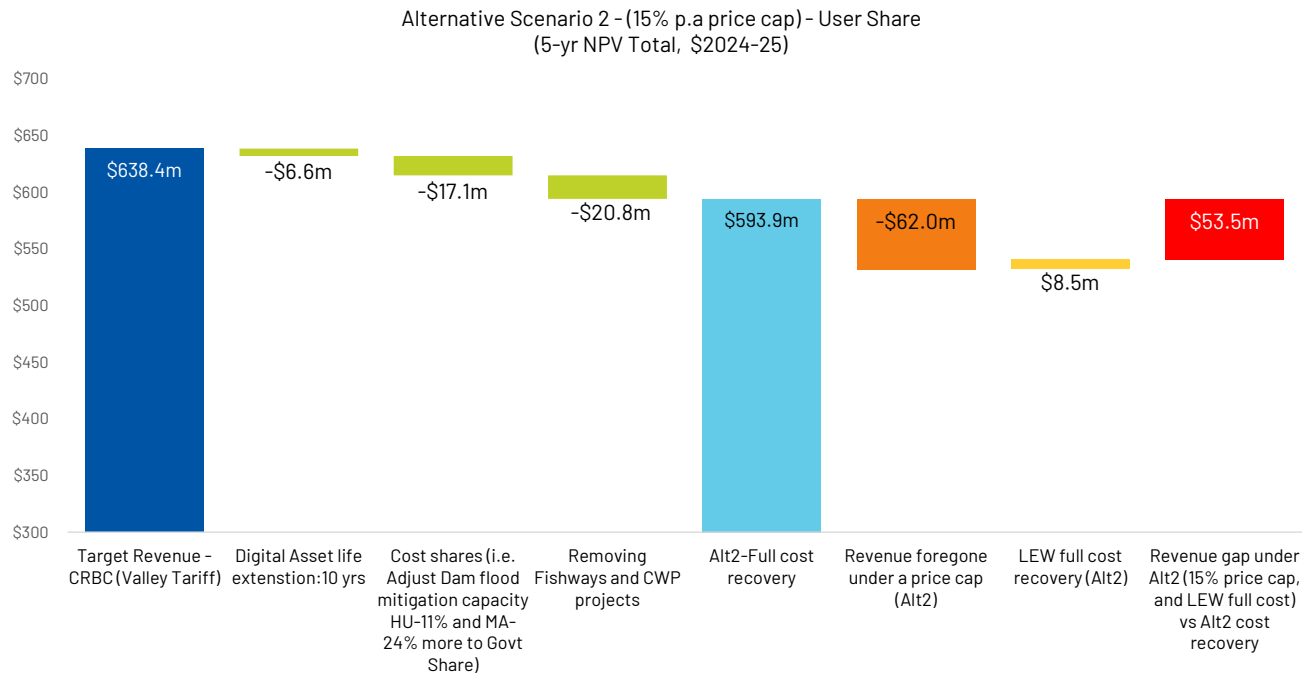


Alternative scenario 2 – Extend asset lives and remove major policy projects

Alternative scenario 1, plus

- **Remove fish passages and Cold Water Pollution projects** – this takes into account the impact on capitalised overheads should the NSW Government decide not to proceed.
- This results in a **residual funding shortfall of $53.5 million** on the user share revenue requirement over five years compared to the Cost Reflective Base Case to manage the financial risk to WaterNSW of not receiving the required funding to meet customer statutory obligations. This is $6.6 million less over five years than Alternative scenario 1 and might be attractive to Government as it would result in lower debt levels.

Figure 63 - Alternative scenario 2



Alternative scenario 3 – Regional pricing

This alternative scenario builds on Alternative scenario 1 and applies a reform initiative that would see the pricing of rural bulk water services transitioning from valley-based to regional-based charging.

How would regional pricing work?

Each valley would pay a legacy charge for the capital expenditure it has incurred up to 30 June 2025. This legacy charge would continue until the existing assets are fully depreciated. From 1 July 2025, charging for capital expenditure and operating expenditure would shift to a regional basis – that is, valleys would receive regionally-based charges rather than valley-based charges. Two regions are suggested: a Northern region comprising seven valleys (Border, Gwydir, Namoi, Peel, Hunter, Macquarie and North Coast) and a Southern region comprising five valleys (Lachlan, Murray-Lower Darling, Murrumbidgee and South Coast).

Regional pricing is consistent with the IPART stated aim to allow the regulated utility to reprioritise expenditure within the allowance. It provides several benefits compared to valley-based pricing, including:

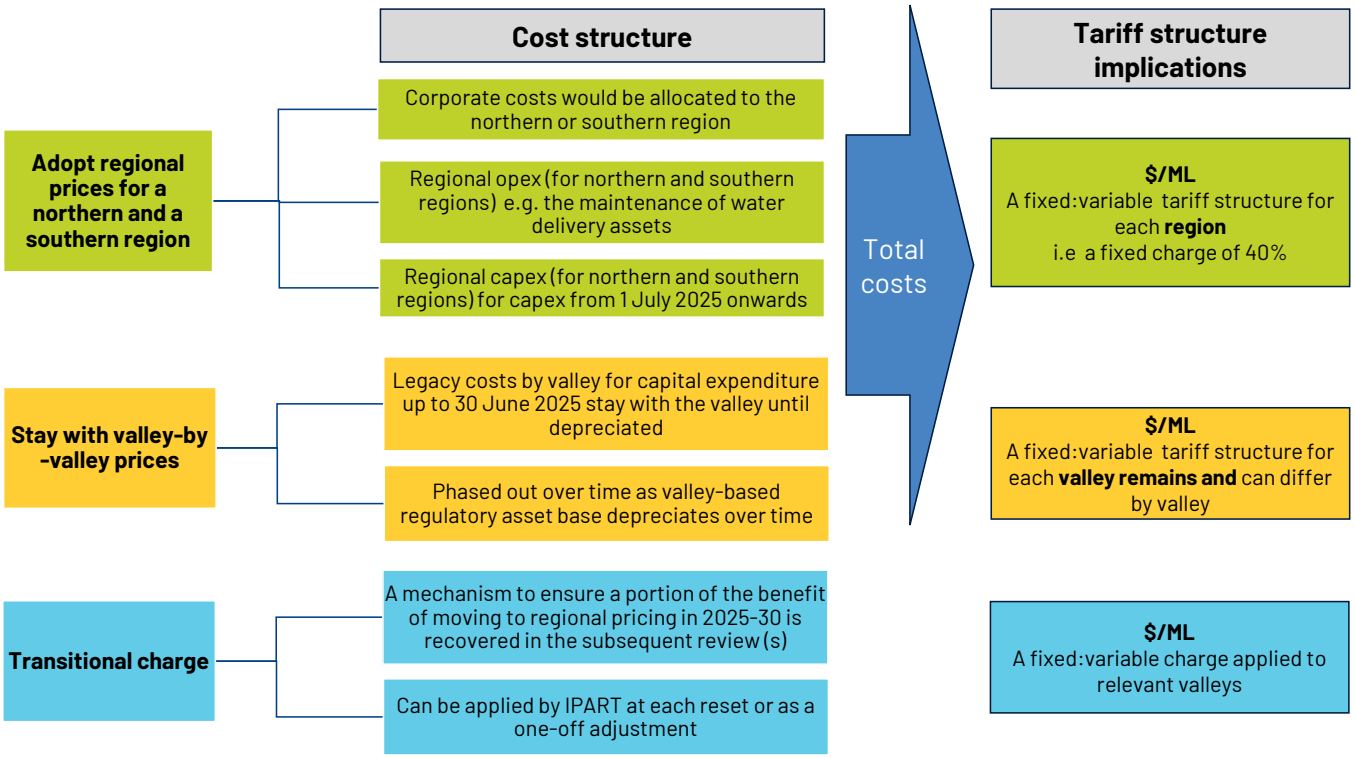
- Minimise price shocks within and between valleys in future as expenditures are allocated across a wider customer base.
- Provide WaterNSW with flexibility to operate across the region to deliver its required investment programs while still focussing on the priorities of each valley.
- Provide opportunities for improved efficiency as the regionally-based framework aligns to WaterNSW's regional structure for its maintenance and operational activities.
- Achieve other administrative improvements, including more straightforward cost allocation across valleys.

A regional charging structure will result in some valleys paying more and other valleys paying less than under a valley-based regime. WaterNSW's suggests that regional pricing should only be considered for this review if combined with a 15% per annum (plus inflation) price ceiling, ensuring no valley would be worse off over 2025-30 than had valley-based pricing continued.

However, for those valleys experiencing price reductions over the next five years, the revenue shortfall could not be recovered by other valleys as the price ceiling would cap increases in valleys where prices would need to increase. This creates the situation where a residual revenue shortfall is created that would either need to be funded outside of customer prices (for example, via WaterNSW or the NSW Government) or deferred to a subsequent regulatory period(s). In order to minimise any residual revenue shortfall over the next five years, WaterNSW proposes a 'transitional' charge ($/ML) is introduced that is calculated as the forecast difference between the revenue requirement in each valley under valley-based pricing and regionally-based pricing.

The proposed charging arrangements are illustrated below:

Figure 64 – Regional pricing proposed charging arrangements



There are currently significant pricing discrepancies by valley. Moving to a regional framework could help minimise price shocks within and between valleys, where changes in costs currently can lead to large increases in smaller valleys under the valley-based approach.

When combined with a price ceiling (which is 15% per annum plus CPI in this scenario), a once in a generation opportunity to reform bulk water pricing into regions is possible, thereby delivering longer term benefits for customers.

Each valley's timeframe is different to reach full cost recovery, depending on how this is implemented.

The outcomes from Alternative scenario 3 are summarised below:

Alternative scenario 1, plus:

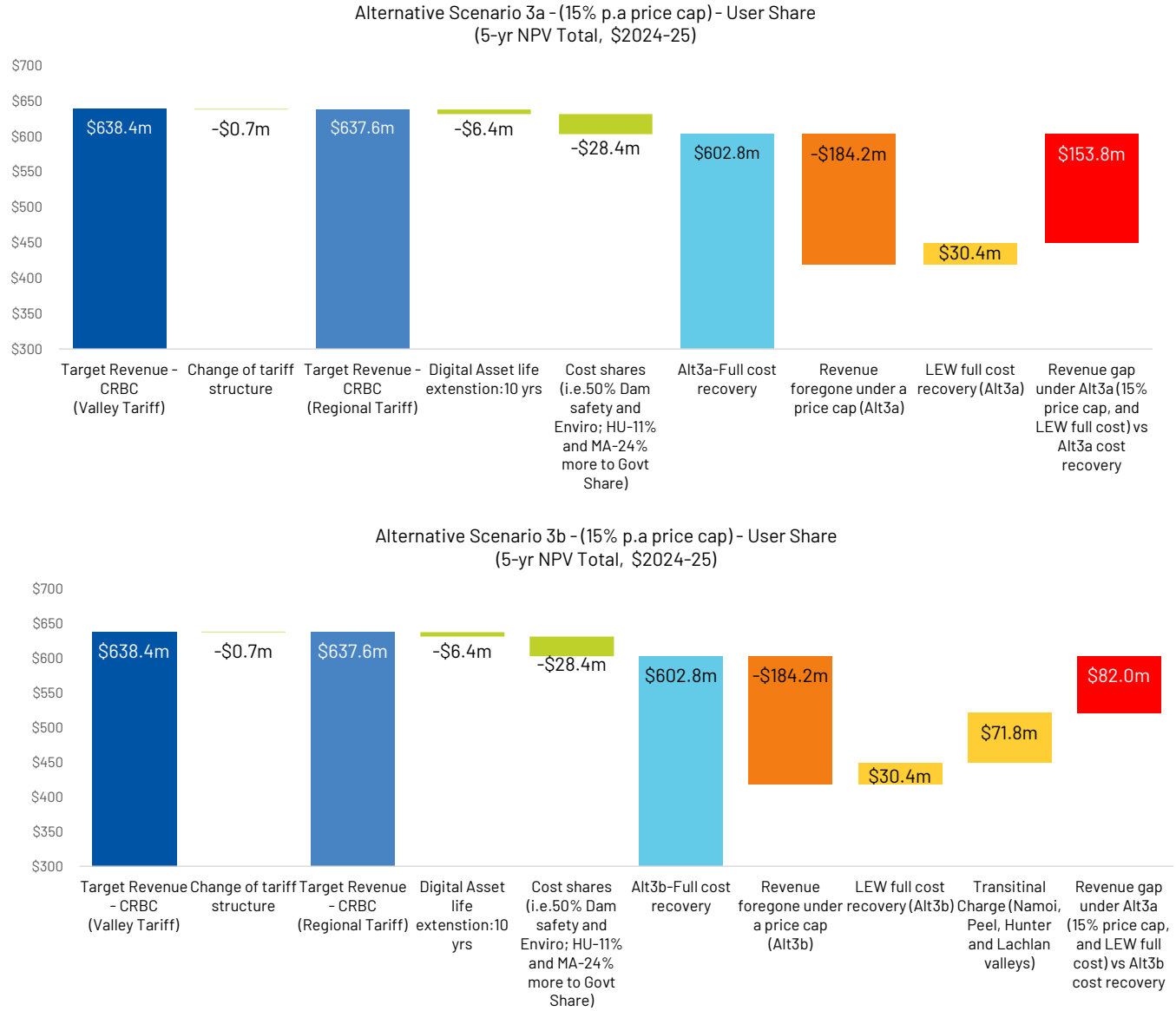
- Implement a form of **regional pricing in the valleys** conditional on a price ceiling (15% per annum plus CPI) in place to minimise the impact on valleys that may otherwise be initially financially disadvantaged in the short term. The calculation does not reflect the cost savings and other benefits that may accrue (for example, reduced pricing volatility between valleys) from the move to regional pricing.
- The two options from regional pricing that represent the upper and lower bounds for funding any revenue shortfall are identified below.
    - **Alternative scenario 3a: A residual funding shortfall of $154 million** on the user share revenue requirement if all **windfall gains for some valleys over the first five years are passed through as lower prices in those valleys**. This is $94 million higher over five years than Alternative scenario 1. This reflects that some valleys would pay less under this scenario as we transition each valley to new regional prices, while no valley would pay more than the 15% per annum price ceiling, thereby passing the additional funding shortfall to WaterNSW or government.
    - **Alternative scenario 3b: A residual funding shortfall of $82 million if a transitional**

charge is introduced for Namoi, Peel, Hunter and Lachlan Valleys (namely, the beneficiaries of regional pricing over the first five years whereby prices are below the 15% per annum ceiling). Under this option, a transitional charge is introduced to **defer all of the benefits of moving to regional pricing to subsequent regulatory periods** (in other words, we have removed all of the benefit in the first five years by resetting prices under this option to ensure customers are no worse off (but are no better off), than the scenario where prices are capped at 15% per annum.

That is, approximately $70 million of the higher residual funding gap associated with the move to regional pricing could be funded through the setting of a transitional charge that increases charges up to 15% per annum, rather than passing the full benefit to customers through lower pricing over the first five years.

The above two options (3a for the full pass-through of benefits, 3b if the full benefit is deferred to subsequent periods) for this alternative scenario for regional pricing are shown below.

Figure 65 - Alternative scenario 3



Ability of our customers to absorb bulk water price increases

To assist IPART in assessing the impact of our proposed costs and prices on customers, and the role that the alternative scenarios might play in addressing affordability for customers, WaterNSW engaged Deloitte Access Economics to conduct a gross margin analysis of the NSW farming sector. This analysis was commissioned to provide a contemporary and detailed look at the financial position of bulk water customers and their potential exposure to higher water prices. The gross margin analysis report is provided in Attachment 30.

The report provides valuable insights on the potential profitability of the sector, while also noting the limitations of applying sector-wide outcomes as individual customer circumstances may vary widely. The analysis suggests that:

- While overall agricultural profits in NSW have been high in recent years, suggesting some capacity to pay for proposed bulk water increases at an aggregate level, historically profits have been volatile and substantially lower than gross margins.
- There is variation in exposure to water costs from year-to year, even within a specific commodity group and in a 'bad' year, even relatively moderate bulk water prices could have a substantial impact on margins in certain market segments. Setting prices based on performance in a single good or bad year may be unrepresentative of broader capacity to pay.
- While overall agriculture profits in NSW have been high in recent years, historically they have been volatile and substantially lower than gross margins. Profits were 38% of revenue in 2021/22; however, were negative just two years earlier (Chart 2.2). The large gap between gross margins and profits reflects the capital-intensive nature of the agriculture sector and indicates that other factors, particularly fixed costs, are important drivers of overall profitability in the sector. The volatility of profits means that it is important to consider long-term averages when setting bulk water prices. Indeed, in an irrigation reliant sector such as rice, there may be years of no irrigation water and hence no production in some years. Setting prices based on performance in a single good or bad year may be unrepresentative of broader capacity to pay.
- Marginal operations are more likely to encounter financial difficulty as the average gross margin falls, but even relatively healthy averages can include individual cases where farms are no longer viable.
- Over time interest costs have tended to follow movements in interest rates, with low rates over the COVID period reducing interest costs as a share of the total. Interest rates have been rising rapidly in more recent times, meaning that this component of costs is likely to have increased for many farmers. With this major fixed cost line increasing, other things equal, gross margins would need to increase to maintain overall profitability.

The gross margin analysis, and in particular the impact of large price increases on more vulnerable customers, provides valuable insights on customers' overall capacity to pay. It also suggests that some form of price capping arrangement, as contemplated in the alternative scenarios presented above, may form part of IPART's price setting considerations for this review.

This is why we recommend that IPART, having strong regard for our customers' feedback and submissions on this proposal, engage jointly with WaterNSW and the NSW Government in an effort toto collaboratively work towards finding the right balance when forming its independent view of rural bulk water charges.

Keepit Dam

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