



Wentworth to Broken Hill Pipeline

Attachment 13

RAB and Return of Capital (Regulatory Depreciation)

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1. Introduction

1.1 Summary

The Regulatory Asset Base (RAB) is used to calculate the return of capital (also referred to as 'regulatory depreciation' i.e. capital investment / asset life) and return on assets (WACC X RAB) under the IPART Building Block Approach.

A closing RAB is established in each year of the current and upcoming determination period, which is rolled forward on an annual basis. The closing RAB in each year is calculated as the RAB in the beginning of the year, plus capital expenditure (net of cash capital contributions), minus asset disposals and depreciation. The process is highlighted in the following formula:

$$\text{Opening RAB}_{t+1} = \text{Opening RAB}_t + \text{Actual/Forecast Expenditure}_t - \text{Disposals}_t - \text{Depreciation}_t + \text{Inflation}_t$$

$$\text{Inflation} = (\text{Opening value} + 50\% \text{ of capex} - 50\% \text{ of disposals}) \times \text{June to June inflation factor (only applies to the RAB roll forward to financial year 2024-25)}$$

$$\text{Closing RAB} = \text{Opening RAB} + \text{Actual/Forecast Capex} - \text{Actual/Forecast Depreciation} - \text{Actual/Forecast Disposals}$$

Actual/Forecast expenditure consists of all expenditure incurred by WaterNSW to 2024-25, and forecast capital expenditure from 2025-26 to 2030-31, as outlined in Section 9 in the main submission document of this pricing proposal.

The RAB is indexed by June-to-June inflation (as measured by the Consumer Price Index (CPI)) for each year of the current period (2022-23 to 2025-26), which includes indexation applied on 50% of the opening value, 50% of the value of capital expenditure (net of cash capital contributions) and 50% of the value of asset disposals (noting that indexation on disposals is subtracted from other indexation additions).

1.2 Broken Hill Pipeline RAB Summary – Essential Water

WaterNSW proposes a closing RAB from the current determination period in 2025-26 for Essential Water of **\$457 million**. This forms the opening RAB for the 2026 Determination period.

Table 1: Opening RAB – Essential Energy (\$000s, \$nominal)

Step 1 – RAB Roll Forward (\$millions, \$nominal)					
	2021-22 ***	2022-23	2023-24	2024-25	2025-26
Opening RAB	\$398,258	\$417,443	\$436,792	\$447,625	\$450,715
+ Capex/Additions	\$296	\$43	\$192	\$214	\$225
- Disposals	\$0	\$0	\$0	\$0	\$0
- Depreciation	\$5,414	\$5,742	\$5,960	\$6,080	\$6,244
+ Indexation*	\$24,303	\$25,048	\$16,602	\$8,955	\$12,172
Closing RAB	\$417,443	\$436,792	\$447,625	\$450,715	\$456,868

*Includes cost of the land swap agreement (foregone revenue) with an offtake customer

** Forecast June to June CPI of 2.0% and 2.7% for FY25 and FY26 have been applied to the RAB, as a placeholder for this pricing proposal. This is the standard IPART approach to inflating the RAB. This forecast will be updated for actual June to June inflation as per the IPART approach.

*** 2021-22 is the last year of the previous (i.e. 2019) determination.

The forecast value of the Wentworth to Broken Hill Pipeline RAB for Essential Water at the end of the 2026 Determination period in 2030-31 is **\$426 million** in \$2025-26 real terms, as shown below.

Table 2: RAB for 2026 Determination period – Essential Water (\$000s, \$2025-26)

Step 2 – Opening RAB (\$millions, \$2025-26)					
	2026-27	2027-28	2028-29	2029-30	2030-31
Opening RAB	\$456,868	\$450,770	\$444,685	\$439,044	\$432,658
+ Capex/Additions	\$261	\$277	\$742	\$11	\$43
- Disposals	\$0	\$0	\$0	\$0	\$0
- Depreciation	\$6,358	\$6,363	\$6,383	\$6,398	\$6,398
+ Indexation*	\$0	\$0	\$0	\$0	\$0
Closing RAB	\$450,770	\$444,685	\$439,044	\$432,658	\$426,303

* No indexation is applied as the forecast RAB is rolled forward in real terms.

As illustrated above, the decreasing value of the RAB in real terms over the upcoming determination period is driven by depreciation reductions to the RAB that are not offset by proposed capital additions.

In nominal terms (i.e. by including the impact of inflation), the Essential Water RAB is forecast to increase to be **\$482 million** in 2030-31 as shown below.

Table 3: RAB for 2026 Determination period – Essential Water (\$000s, \$nominal)

Step 2 – Opening RAB (\$millions, \$nominal)					
	2026-27	2027-28	2028-29	2029-30	2030-31
Opening RAB	\$456,868	\$462,040	\$467,197	\$472,803	\$477,574
+ Capex/Additions	\$267	\$292	\$800	\$12	\$49
- Disposals	\$0	\$0	\$0	\$0	\$0
- Depreciation	\$6,517	\$6,685	\$6,873	\$7,062	\$7,239
+ Indexation*	\$11,422	\$11,551	\$11,680	\$11,820	\$11,939
Closing RAB	\$462,040	\$467,197	\$472,803	\$477,574	\$482,323

* Indexation of 2.5% per annum is applied.

1.3 Broken Hill Pipeline RAB Summary – Offtake customers

WaterNSW proposes a closing RAB from the current determination period in 2025-26 for offtakes of **\$321,000**. This forms the opening RAB for the 2026 Determination period.

Table 4: Opening RAB – Offtake Customers (\$000s, \$nominal)

Step 1 – RAB Roll Forward (\$000s, \$nominal)					
	2021-22	2022-23	2023-24	2024-25	2025-26
Opening RAB	\$334	\$339	\$344	\$340	\$332
+ Capex/Additions	\$0	\$1	\$0	\$3	\$0
- Disposals	\$0	\$0	\$0	\$0	\$0
- Depreciation	\$15	\$17	\$17	\$18	\$20
+ Indexation*	\$20	\$20	\$13	\$7	\$9
Closing RAB	\$339	\$344	\$340	\$332	\$321

* Forecast June to June CPI of 2.0% and 2.7% for FY25 and FY26 have been applied to the RAB, as a placeholder for this pricing proposal. This is the standard IPART approach to inflating the RAB. This forecast will be updated for actual June to June inflation as per the IPART approach.

The forecast value of the Broken Hill Pipeline RAB for offtake customers at the end of the 2026 Determination period in 2030-31 is **\$256,000** in \$2025-26 real terms, as shown below.

Table 5: RAB for 2026 Determination period – Offtake Customers (\$000s, \$2025-26)

Step 2 – Opening RAB (\$000s, \$2025-26)					
	2026-27	2027-28	2028-29	2029-30	2030-31
Opening RAB	\$321	\$302	\$291	\$302	\$279
+ Capex/Additions	\$0	\$9	\$33	\$0	\$0
- Disposals	\$0	\$0	\$0	\$0	\$0
- Depreciation	\$20	\$20	\$22	\$23	\$23
+ Indexation*	\$0	\$0	\$0	\$0	\$0
Closing RAB	\$302	\$291	\$302	\$279	\$256

* No indexation is applied as the forecast RAB is rolled forward in real terms.

As illustrated above, the decreasing value of the RAB in real terms over the upcoming determination period is driven by depreciation reductions to the RAB that are not offset by proposed capital additions.

In nominal terms (i.e. by including the impact of inflation), the offtake customer RAB is forecast to decrease to **\$289,000** in 2030-31 as shown below.

Table 6: RAB for 2026 Determination period – Offtake Water (\$000s, \$nominal)

Step 2 – Opening RAB (\$000s, \$nominal)					
	2026-27	2027-28	2028-29	2029-30	2030-31
Opening RAB	\$321	\$309	\$305	\$325	\$308
+ Capex/Additions	\$0	\$10	\$36	\$0	\$0
- Disposals	\$0	\$0	\$0	\$0	\$0
- Depreciation	\$20	\$21	\$23	\$26	\$26
+ Indexation*	\$8	\$8	\$8	\$8	\$8
Closing RAB	\$309	\$305	\$325	\$308	\$289

* Indexation of 2.5% per annum is applied.

2. Asset Lives

Asset lives are used to calculate RAB depreciation for the IPART “return of capital” building block allowance.

In simple terms, the regulatory deprecation allowance allows WaterNSW to recover its capital investment in equal installments over the useful life of the asset (capital investment / asset live). This calculation has a significant impact on our forecast revenue requirement, as higher levels of proposed capital investments on shorter lived asset may lead to large increases in the regulatory deprecation allowance and revenue requirement over the upcoming determination period.

For the Wentworth to Broken Hill Pipeline Determination, WaterNSW proposes to apply the existing RAB subcategories by asset class:

- Pipeline
- Bulk water storage facility
- Buildings
- Plant and machinery (including pumping stations and river intake)
- Other support costs
- Cost of land swap agreement
- Wentworth Ski Park Reserve Rehabilitation
- Non-depreciating assets (eg land)
- Offtakes
- Offtakes – Asset replacement

In its previous determination, IPART considered that the straight-line method for calculating forecast depreciation of the RAB is superior to alternatives in terms of simplicity, consistency and transparency.¹

WaterNSW has adopted the straight-line method for calculating forecast depreciation of the RAB over the 2026 Determination period, ensuring the value of WaterNSW’s assets are depreciated in equal instalments over their useful life.

¹ Ibid. Page 62.

2.1 Broken Hill Pipeline Useful Lives – Existing Assets

Table 7 below sets out the useful lives of each asset class in the current determination period for the pipeline. The calculations have been derived by rolling forward the existing asset calculations from 2022-23 to 2025-26.

WaterNSW proposes the following remaining asset lives for the 2026 Determination period for assets existing at the beginning of the 2026 Determination period, and for new assets:

Table 7: Average remaining asset lives for existing assets for the 2026 Determination

Asset class	Remaining lives of existing assets
Pipeline	92
Bulk water storage facility	72
Buildings	52
Plant and machinery (including pumping stations and river intake)	17
Cost of land swap agreement	26
Wentworth Ski Park Reserve Rehabilitation	52
Other support costs	0
Offtakes	17
Offtakes – Asset replacement	2
Weighted average life	86

2.1.1 Significant disposals

WaterNSW has not adjusted the RAB for any significant asset disposal event in the current period or any minor disposals.

3. Return of Capital

3.1 Proposed Return of Capital – Essential Water

Based on the RAB values as outlined in Section 1.2 and the asset lives outlined in Section 2, WaterNSW proposes the return of capital (depreciation) allowance for Essential Water as shown in Table 8 below.

Table 8: Proposed return of capital for Essential Water (\$000s, \$2025-26)

Proposed return of capital (\$2025-26, \$000s)
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	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Essential Water	\$6,262	\$6,267	\$6,286	\$6,301	\$6,301	\$31,417

3.2 Offtake customers

Based on the RAB values as outlined in Section 1.3, WaterNSW proposes the return of capital (depreciation) allowance for offtake customers as shown in Table 9 below. The calculation is based on a remaining asset life for existing assets of 17 years, consistent with rolling forward the 25-year economic life of offtakes that IPART determined at the 2022 Determination.

Costs for asset replacement as per the relevant schedule of the O&M contract have been included as additional capital expenditure over the 2026 Determination period.

Table 9: Proposed return of capital for Offtake customers (\$000s, \$2025-26)

	2022-23	2023-24	2024-25	2025-26	2026-27	Total
Offtake customers	\$19.5	\$20.0	\$21.4	\$22.8	\$22.8	\$106.6

3.3 Broken Hill Pipeline Useful Lives – New Assets

The table below sets out the useful lives of each asset class over five years of the determination period for new assets.

Table 10: Broken Hill Pipeline Useful Lives – New Assets

Asset class	Asset life (years)
Pipeline	100
Bulk water storage facility	80
Buildings	60
Plant and machinery (including pumping stations and river intake)	25
Other support costs	5
Offtakes	25
Offtakes – Asset replacement	10

As shown below, from 2026-27 onwards, the major component of our proposed capital expenditure program is on the asset replacement costs, with some easement acquisition to occur during the early part of the 2026 determination period.

Table 11: Broken Hill Pipeline Capital Expenditure by Asset (\$millions, \$2025-26)

Essential Water and Offtakes	2026-27	2027-28	2028-29	2029-30	2030-31	Total	Average
Essential Water – Easements	\$234.9	\$0.0	\$0.0	\$0.0	\$0.0	\$234.9	\$47.0

Essential Water - Asset replacements ^	\$25.8	\$277.5	\$742.4	\$11.2	\$43.1	\$1,100.0	\$220.0
Offtakes - Asset replacements	\$0.0	\$9.3	\$33.2	\$0.0	\$0.0	\$42.5	\$8.5
Total *	\$260.7	\$286.8	\$775.6	\$11.2	\$43.1	\$1,377.4	\$275.5

* Capex inclusive of capitalised overhead

^ Including Capex for offtake provided in exchange for land

As shown below, from 2026-27 onwards, the major component of our proposed capital expenditure program is on the asset replacement costs, with some easement acquisition to occur during the early part of the 2026 determination period.

Figure 1: Broken Hill Pipeline Capital Expenditure by asset

