



Attachment 8

Base Trend Step operating expenditure

30 September 2025

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Contents

List of tables	2
List of figures.....	2
1 Introduction.....	3
2 Overarching Summary.....	3
3 Opex forecasting approach.....	5
3.1 Forecasting methodology	5
3.2 Cost allocation methodology	6
4 Setting the efficient base year.....	6
4.1 Base year	6
4.2 Base year adjustments.....	6
5 Trend	7
5.1 Trend assessment	7
5.1.1 Insurance.....	7
5.1.2 O&M contracts - CPI uplift.....	8
5.1.3 Efficiencies built into our proposal.....	8
6 Step Change	9
6.1 Step change assessment	9
6.1.1 CAM Overhead Allocation	10
6.1.2 Asset refurbishment costs.....	10
6.1.3 O&M contracts real change	12
6.1.4 Other operation and maintenance	12
6.1.5 Regulatory pricing submission costs	12
6.1.6 SPV contract management costs	13

List of tables

Table 1: WaterNSW Base Trend Step operating expenditure (\$000s, \$2025-26)	5
Table 2: Summary of base year adjustments (\$000s, \$2025-26)	7
Table 3: WaterNSW opex forecast trend (\$000s, \$2025-26)	7
Table 4: Summary of step change (\$000s, \$2025-26).....	10
Table 5: Overhead allocation percentage by determinations	10
Table 6: Asset refurbishment schedule change of cash flow.....	11
Table 7: Asset refurbishment schedule Opex and Capex split	11

List of figures

Figure 1: WaterNSW Base Trend Step operating expenditure (\$000, \$2025-26)	4
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1 Introduction

WaterNSW's operating expenditure forecasts for the 2026 Determination period follow the Base-Trend-Step (BTS) approach required by IPART under the 3Cs framework.

Key considerations include:

- Efficient Base Year: Adjusted for non-recurrent and/or non-controllable costs
- Shared Cost Allocation: Corporate costs are appropriately distributed
- Risk Assessment: Operating and maintenance costs are factored into projections

2 Overarching Summary

Total Annual operating expenditure over the 2026 Determination period is projected at **\$6.0 million**, comprising:

- **\$2.1 million** for fixed operations and maintenance under contract with the John Holland Trility Group Joint Venture
- **\$0.2 million** for asset refurbishment
- **\$1.2 million** in SPV overheads, allocated via WaterNSW's corporate methodology
- **\$0.5 million** for regulatory submission and reporting costs, audits, insurance, land tax, and other administrative costs including contract management.
- **\$2.0 million** for benchmark electricity costs—are standardised estimates used for regulatory pricing. Actual electricity costs can vary due to market conditions and operational factors. To ensure the BTS forecast reflects only controllable costs, electricity costs have been excluded.

For the 2026 Determination, **BTS operating expenditure—excluding benchmark electricity costs—totals \$19.8 million over five years, or approximately \$4 million annually**, as outlined in figure 1 below and discussed further in the following sections.

Figure 1: WaterNSW Base Trend Step operating expenditure (\$'000, \$2025-26)



Table 1: WaterNSW Base Trend Step operating expenditure (\$000s, \$2025-26)

Base and Step Analysis Broken Hill Pipeline Determination	2024-25 Actual	2025-26*	2026-27	2027-28	2028-29	2029-30	2029-31	Average
	Nominal	\$2025-26	\$2025-26	\$2025-26	\$2025-26	\$2025-26	\$2025-26	\$2025-26
WaterNSW Regulated Opex FY25	\$5,332							
Opex after accounting Adjustment	\$5,332							
Base								
Base Adjustments								
Remove actual electricity costs in contract	\$1,821							
Remove regulatory submission costs	\$270							
Total Base Opex (after adjustments)	\$3,240							
Trend								
Audit costs		-\$0	\$2	\$2	\$2	\$2	\$2	\$2
Insurance premium increases		\$37	\$42	\$49	\$53	\$56	\$61	\$52
O&M contracts - CPI uplift		\$53	\$59	\$53	\$57	\$51	\$51	\$54
Efficiencies		-\$17	-\$33	-\$48	-\$65	-\$85	-\$103	-\$67
Step								
O&M contracts - real changes		\$107	\$313	\$96	\$244	\$40	\$49	\$148
SPV contract management cost		-\$12	-\$12	-\$11	-\$9	-\$8	-\$7	-\$9
Other operation and maintenance: materials and tree care		-\$58	-\$57	-\$58	-\$55	-\$59	-\$58	-\$57
Travel Costs		-\$4	-\$4	-\$4	-\$3	-\$4	-\$3	-\$4
SPV support costs		\$120	\$172	\$207	\$385	\$509	\$312	\$317
Step Changes: non-recurrent / cyclical								
Asset refurbishment costs		\$66	\$82	\$184	\$617	\$4	\$46	\$187
Regulatory submission costs		\$255				\$248	\$208	\$91
Regulatory submission reporting/implementation			\$57					\$11
Total Operating Costs								
Total Operating costs (excl. electricity)		\$3,787	\$3,862	\$3,711	\$4,466	\$3,996	\$3,798	\$3,966
Benchmark electricity costs		\$2,694	\$2,004	\$1,990	\$2,007	\$2,004	\$1,979	\$1,997
Total Operating costs in proposal		\$6,481	\$5,866	\$5,701	\$6,473	\$6,000	\$5,776	\$5,963

* 2025-26 is the last year of the 2022 Determination period.

3 Opex forecasting approach

3.1 Forecasting methodology

WaterNSW's proposed operating costs reflect our commitment to serving Broken Hill customers and meeting regulatory obligations.

Our forecasts are developed using a structured bottom-up approach aligned with IPART's 3Cs framework and Base-Trend-Step methodology.

Key cost drivers include:

- Ongoing costs from commissioned assets
- Asset management to reduce risk and protect service continuity
- Allocation of shared overheads
- Known or expected increases above inflation in land tax, insurance and audit fees
- Meeting service quality obligations

3.2 Cost allocation methodology

The Cost Allocation Manual (Appendix 7) explains how WaterNSW allocates corporate costs.

To summarise WaterNSW calculates net overheads by removing directly attributable operating and capitalised costs from total gross overhead. The remaining overheads are then fully allocated to both regulated services under IPART, including Greater Sydney, Rural Valleys, WAMC and the Wentworth to Broken Hill Pipeline and non-regulated services.

Costs associated with non-core and non-regulated services are excluded from this allocation, ensuring that only costs relevant to regulated services are considered in the pricing framework.

4 Setting the efficient base year

The base year should represent a typical year with efficient, recurring controllable operating expenses, including necessary costs for sustainable operations.

The IPART 3Cs Handbook recommends that the efficient base year should be the penultimate year of the determination period. Our most recent year of actual (un-audited) financials available is 2024-25 which has been set as our base year.

4.1 Base year

WaterNSW's operating costs for the Wentworth to Broken Hill Pipeline in 2024-25 are \$5.332million. This figure includes all direct expenses and overheads.

4.2 Base year adjustments

To ensure the 2024-25 base year is a sound basis for future cost forecasts, WaterNSW has made two key adjustments:

- **Non-recurrent costs:** WaterNSW has excluded the cyclical cost of preparing its regulatory pricing submission. This included consultancy fees, such as engaging Frontier Economics for electricity forecasts under IPART's 3Cs framework.
- **Non-controllable Electricity costs:** Actual electricity expenditure has been excluded and separate benchmark electricity costs for proposal period are provided in accordance with the current determination.

Table 2: Summary of base year adjustments (\$000s, \$2025-26)

	Total Adjusted Base
Base – 2024-25	\$5,332
Non-Recurrent Expenses	-\$270
Regulatory Submission Costs	-\$270
Non-Controllable Expenses	-\$1,821
Actual Electricity Costs	-\$1,821
Total Adjusted Base – 2024-25	\$3,240

5 Trend

WaterNSW has reviewed key cost areas to support its BTS operating expenditure forecasts.

Over the five-year determination period, a total increase of **\$0.2 million** is proposed.

This includes efficiencies and rising costs above inflation in:

- **Insurance premiums**
- **Contracted maintenance services**

Table 3 below shows the total impact of trend changes on operational expenditure.

Table 3: WaterNSW opex forecast trend (\$000s, \$2025-26)

Trend	Proposal period Trend							
000's	2024-25 Base Year Total	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total Trend 2027-31
Audit fees	\$34	-\$0	\$2	\$2	\$2	\$2	\$2	\$10
Insurance premiums	\$136	\$37	\$42	\$49	\$53	\$56	\$61	\$261
O&M contracts - CPI component		\$53	\$59	\$53	\$57	\$51	\$51	\$271
Efficiencies		-\$17	-\$33	-\$48	-\$65	-\$85	-\$103	-\$334
Total (accumulative)	\$170	\$73	\$70	\$56	\$47	\$24	\$11	\$209

* Totals may not add due to rounding

5.1 Trend assessment

5.1.1 Insurance

Insurance premiums are increasing globally due to escalating frequency and severity of global risks, including major weather events, climate change and instances of cybercrime.

In accordance with NSW Treasury Circular TC20-05 Mandatory Use of the Treasury Managed Fund (TMF) for All Government Insurance Requirements, WaterNSW is required to be a TMF member for its insurance requirements and is required to obtain cover for its insurable assets and liabilities through

the TMF, managed by icare. This provides government agencies with access to cost effective insurance.

icare annually conducts commercial insurance market benchmarking to measure value for money through the TMF. Such benchmarking exercises consistently demonstrate the lack of commercial insurance market capacity to support the breadth of coverage afforded through the TMF, as well as the value for money achieved through the TMF as compared with commercial insurance alternatives.

Historically, insurance premiums have increased, and we expect this trend to continue and have estimated an average annual 'real' increase, which aligns with icare FY25-31 contribution forecast. icare forecasted a compound annual growth rate (CAGR) of 8.9 per cent over the FY25-31 period for WaterNSW's annual TMF property and liability contributions. We have converted this estimate to real terms using an inflation of 2.1 per cent, and this conversion results in an escalation factor of 6.6 per cent over the period of FY25-31.

5.1.2 O&M contracts - CPI uplift

A CPI rate of 2.7% was applied to escalate the 2024-25 dollar values to 2025-26. The amount included for this trend adjustment reflects that escalation.

5.1.3 Efficiencies built into our proposal

WaterNSW is committed to driving efficiencies and improved customer outcomes in all aspects of its operations.

WaterNSW has a published efficiency strategy that was included as an attachment to the bulk water pricing proposal and can be found at [2024-Pricing-Proposal-WaterNSW-Attachment-09-Efficiency-program.PDF](#)

At a high level this efficiency strategy committed WaterNSW to delivering compounding operational cost efficiencies of 1% per annum, based on the proposed expenditures including the forecast investments in enabling systems, processes and technology.

Notwithstanding the ongoing review of the bulk water proposals by IPART, WaterNSW has adopted this efficiency strategy for this pricing proposal where relevant and noting the whole of organisation savings that the efficiency strategy would generate for corporate and overhead costs.

Reflecting on the manner and contribution of revealed (actual) and benchmark costs are used for setting the Wentworth to Broken Hill pipeline revenues, WaterNSW is proposing a cumulative efficiency target of 1% of SPV support operating expenditures per annum. This is aimed at ensuring pipeline customers also benefit from the corporate transformation program set out in our efficiency strategy over the next five years.

These annual efficiency target result in combined savings of \$334,000 (\$2025-26) over the upcoming five-year determination period as set out in the table above.

WaterNSW observes that the pipeline energy costs are established by reference to external benchmark assessments do not reflect our actual contract energy cost. Our operations and maintenance costs are

established by reference to long term contracts that have previously been reviewed by IPART (e.g. maintenance costs).

WaterNSW does wish to highlight that notwithstanding the use of regulatory benchmarks or having entered into long term contracts it continues to establish and exercise commercial and efficiency discipline in its activities. For example, the operating and maintenance contract is designed to motivate the contractor to find efficiency gains throughout the term and to share the benefit of those gains. To incorporate this principle, the operating and maintenance contract includes:

- a mechanism to share any benefits greater than \$100,000 realised from any discrete changes in the operating regime or design of the project. That is, if during the term the contractor finds ways to improve the operating efficiency of the project, these gains would be shared 50/50 between the contractor and WaterNSW
- a mechanism to measure any energy cost savings realised by the contractor (calculated as energy payments less actual energy costs incurred) on an annual basis and share these savings 50/50 between the contractor and WaterNSW.

While customers continue to benefit from the application of the efficient benchmark from price setting purposes, these arrangements should give customers confidence that WaterNSW continually strives for greater efficiencies and applies commercial discipline at all times.

6 Step Change

Step changes are forward-looking adjustments in the recurrent controllable operating costs. They account for costs not covered in the adjusted base year or trend but are necessary for an efficient expenditure profile. To avoid double-counting in the opex forecast, WaterNSW applied a step change criterion (see Table 7).

Our key step changes include:

- Adjustments to regulated opex from net corporate overheads after allocation, influenced by capital cost share.
- Asset refurbishment costs reflecting a shift from capex to opex.
- Regulatory pricing submission costs in 2026–27 and 2030–31.
- A reduction in SPV contract management and other O&M costs, including materials, tree care, and travel.

6.1 Step change assessment

WaterNSW is proposing **\$3.421 million in total step changes** in our opex forecasting from the 2024-25 adjusted base year for the 2026 determination period.

Key step items are outlined in Table 5 below.

Table 4: Summary of step change (\$000s, \$2025-26)

Steps	Proposal period Step							
000's	2024-25 Base Year Total	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total Step 2027-31
CAM- Overhead allocation from WaterNSW	\$951	\$120	\$172	\$207	\$385	\$509	\$312	\$1,588
Asset refurbishment costs classified as opex	\$0	\$66	\$82	\$184	\$617	\$4	\$46	\$934
O&M contracts - real changes	\$1,855	\$107	\$313	\$96	\$244	\$40	\$49	\$742
Regulatory submission costs (base year adjusted)	\$0	\$255	\$0	\$0	\$0	\$248	\$208	\$456
Regulatory submission reporting/implementation	\$57	\$0	\$57	\$0	\$0	\$0	\$0	\$57
SPV contract management cost	\$127	-\$12	-\$12	-\$11	-\$9	-\$8	-\$7	-\$47
Travel Costs	\$9	-\$4	-\$4	-\$4	-\$4	-\$4	-\$3	-\$18
Other operation and maintenance: materials and tree care	\$71	-\$58	-\$57	-\$58	-\$55	-\$59	-\$58	-\$287
Total	\$3,070	\$473	\$551	\$415	\$1,179	\$731	\$546	\$3,421

6.1.1 CAM Overhead Allocation

WaterNSW's overhead allocation policy is set out in the Cost Allocation Manual (CAM). Overhead costs are allocated to the Broken Hill Pipeline based on its share of direct operating expenditure, excluding energy costs as per the previous submission.

This share is forecast to increase—from 1.9% in 2024-25 to an average of 2.4% over the determination period.

Table 5: Overhead allocation percentage by determinations

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Broken Hill Pipeline	1.9%	2.3%	2.4%	2.3%	2.7%	2.4%	2.4%
Greater Sydney	44.0%	47.0%	46.0%	46.0%	45.6%	46.2%	46.4%
Rural Valleys	35.6%	33.3%	35.9%	36.5%	36.5%	36.0%	35.5%
WAMC	18.6%	17.4%	15.7%	15.2%	15.3%	15.4%	15.7%

6.1.2 Asset refurbishment costs

This activity covers planned asset refurbishment incorporated into the O&M contract reflecting the cost profile bid by the contractor in its tender over a 20-year period and updating for in-service experience and observation. WaterNSW notes that during the 2026-27 to 2030-31 determination period, the pipeline will reach 10 years of operation that triggers the need for some additional expenditure on asset refurbishment or replacement (albeit still relatively low).

Table 6: Asset refurbishment schedule change of cash flow

Original Schedule (\$000, \$2016-17)	2019-20 to 2024-25	2025-26 to 2030-31	2031-32 to 2038- 39	Total contract period
Original Schedule	\$263	\$1,265	\$5,248	\$6,776
Updated Schedule	\$263	\$1,523	\$4,997	\$6,783
Change	\$0	\$258	-\$251	\$7

Unlike in the 2022 Determination, where all asset replacement was treated as operating expenditure due to the activities not meeting the capitalisation threshold as noted above, WaterNSW proposes to address asset refurbishment and replacement in the 2026 Determination period in the following manner:

- activities and costs relating to refurbishment of existing assets would continue to be treated as operating expenditure
- activities and costs relating to replacement would be treated as capital

Table 7: Asset refurbishment schedule Opex and Capex split

Updated Schedule (\$000)	2019-20 to 2024- 25	2025-26 to 2030- 31	2031-32 to 2038- 39	Total contract period
Opex (in \$2016-17)	\$263	\$763	\$1,498	\$2,524
Capex (in \$2016-17)		\$760	\$3,499	\$4,259
Total (in \$2016-17)	\$263	\$1,523	\$4,997	\$6,783
Opex (in \$2025-26)	\$345	\$1,000**	\$1,964	\$3,309
Capex (in \$2025-26)		\$996	\$4,587	\$5,583
Total \$2025-26	\$345	\$1,996	\$6,551	\$8,893

* Capex excluding capitalised overhead

** Opex (in \$2025-26) total is made up of \$66k in FY26, plus **\$934k** for FY27 to FY31, total \$1000k.

These costs are treated as opex, consistent with IPART's previous acceptance of WaterNSW's classification for similar asset refurbishment activities. Refurbishment activities consist of BWS aerators, overhead gantry cranes, drive motors, coating works and refurbishment of appurtenances and electrical control systems.

The \$934,000 step increase aligns with the 20-year contract. While it represents a rise in cash flow for the upcoming determination period, this is offset in later years, keeping the total contract value broadly consistent.

As illustrated in Table 5 above, the increase in activity and expenditure in 2028-29 coincides with the 10-year anniversary of the pipeline.

The planned asset refurbishment works across the next determination period include:

- refurbishment of Bulk Water storage cells 1 & 2 including aerators

- refurbishment of overhead gantry cranes and drive motors at Wentworth and Silver City pumpstations WPS & SCPS and
- refurbishment of other minor assets including exterior coating, refurbishment of pipeline appurtenances as well as control systems and electrical systems.

This is demonstrated in the price model, tab Cost under contract.

6.1.3 O&M contracts real change

The contracted cost profile bid by the John Holland Trility Joint Venture (JHJV), which includes planned asset refurbishment and maintenance activities.

There is a real **increase of \$742,000** in operating and maintenance O&M contract costs over the 2026 Determination period. These increases are above CPI and reflect actual contract terms and operational needs.

Cost variation across the individual years relates to cyclic planned maintenance, with higher cost years representing major maintenance and overalls required at varying intervals, as opposed to each year.

6.1.4 Other operation and maintenance

These are costs for tree care and general materials. There is a real **decrease of \$287,000** in over the 2026 Determination period. This work had an end date for tree planting and associated tree care which had an end date of 2024-25.

6.1.5 Regulatory pricing submission costs

These are cyclical costs provisioned for both internal and external support costs associated with our pricing submission to IPART. The total regulatory submission costs for this proposal across 2024-25 and 2025-26 are forecasted to be \$525k, comprising \$270k in 2024-25 (removed via base year adjustment) and \$255k in 2025-26. The estimated costs for the next pricing submission costs are **\$456k**, with \$248k in 2029-30 and \$208k in 2030-31, as outlined in Table 1. These represent a **reduction of \$69k** compared to the current period.

External costs relate to engaging external consultants for electricity benchmark costs and the preparation of a quality assurance (QA) report to support our pricing submission. Internal costs relate to WaterNSW staff time spent preparing the submission, involving teams across Economic Regulation, Operations, Customer Engagement and Financial Planning and Analysis.

In the year following a new determination, a small portion of staff time will be required to implement the new determination and establish new ongoing reporting requirements, this is estimated at **\$57k** in 2026-27.

6.1.6 SPV contract management costs

These costs are separate from corporate overheads and cover SPV activities such as contract oversight direct costs, coordination with service providers (e.g. John Holland Trility JV), compliance, reporting, legal and internal administration.

The SPV contract management costs are forecast to **decrease** over the 2026 Determination period, contributing a **negative step change** of **\$47,000** across five years due to works being completed that no longer require project management. Works include tree planting and streetscape works in Wentworth Ski Park that required management.