

Pricing Proposal to the Independent Pricing and Regulatory Tribunal

Regulated prices for the
Wentworth to Broken Hill
Pipeline from 1 July 2026

30 September 2025



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Attachment 2	Compliance Checklist
Attachment 3	Self-assessment against IPART's grading rubric
Attachment 4 – REDACTED	WaterNSW engagement plan Wentworth to Broken Hill pipeline 2025
Attachment 5	Customer and community engagement report
Attachment 6	Executed Raw Water Supply Agreement between WaterNSW and Essential Energy – Schedules 1 & 2
Attachment 7	WaterNSW cost allocation manual
Attachment 8	Base Trend Step operating expenditure
Attachment 9	Frontier Economics report on electricity costs
Attachment 10 – CONFIDENTIAL	Updated CIE Model to calculate electricity cost true-up
Attachment 11	Wentworth to Broken Hill pipeline asset management plan
Attachment 12	Managing risk
Attachment 13	RAB and Return of Capital (Regulatory Depreciation)
Attachment 14	Income Tax and Working Capital
Attachment 15 – CONFIDENTIAL	a: IPART Information Returns [Annual Information Return (AIR) Special Information Return (SIR)] b: IPART WBHP (Pipeline) Electricity data request 2027-2031 c: IPART WBHP (Pipeline) Electricity data request 2023-2026 d: WBHP cost of debt true-up-calculator
Attachment 16 – CONFIDENTIAL	Populated IPART Building Block Model

CEO Foreword



I am pleased to submit WaterNSW's pricing proposal to the Independent Pricing and Regulatory Tribunal of New South Wales (IPART), for water transport services supplied by WaterNSW via the Wentworth to Broken Hill Pipeline from 1 July 2026.

WaterNSW's Board and Management team are fully committed to the planning and delivery of this proposal and the ongoing accountability to monitor and deliver on our commitments.

The 270 kilometre pipeline became operational in April 2019 and is designed to provide up to 37.4 megalitres (ML) per day of raw water from the River Murray near Wentworth to Essential Water to meet the needs of the Broken Hill community.

WaterNSW also owns and operates a bulk water storage facility that can supply Essential Water's

need for water for around 22 days to provide emergency supply if we are not able to supply water from the River Murray.

The pipeline has been critical in ensuring a safe and secure water supply to the Broken Hill community, which is one of the hottest and driest regions in the country.

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 enable 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.

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

While this is our third pricing proposal for the pipeline, it is our first prepared under IPART's 3Cs framework that places greater emphasis on embedding customer preferences into the proposal and demonstrating the prudence and efficiency of our activities and costs.

We have engaged extensively with our major customer (Essential Water) and have included their feedback and preferences in this proposal. We also engaged with our offtake customers, councils and the community to ensure their views are reflected and their needs continue to be met.

We transported 6,452 ML of water in 2024-25. This is approximately 9% higher than IPART's forecast in the 2022 Determination, largely due to drier conditions and less water supplied by Essential Water's infrastructure than previously assumed.

We are meeting all of our water security targets and aim to operate the pipeline in a way that keeps water prices low for customers.

We now have the benefit of six years of operating experience. The insights gained over this period have informed our forecast of water demand over the 2026 Determination period, our assessment of the efficient costs of providing transportation services and the minimum prices necessary to recover these efficient costs.

This operating performance should provide IPART with the confidence to set a five-year determination period. A five-year determination period aligns to IPART's default position in the 3Cs framework and is supported by our major customer.

Our proposal involves continued investments to operate and maintain the assets in a manner that is in the best interest of customers, while continuing to minimise costs.

We propose an average revenue requirement of \$27.7 million (\$2025-26) per year, which is 12.2% higher than in the 2022 Determination period.

Over 85% of the increase is due to interest rate increases outside of WaterNSW's direct control – an increase in the post-tax real weighted average cost of capital (WACC) from 2.8% in 2022 to a placeholder WACC of 3.1% in 2025 and a cost of debt true-up over the past four years due to higher interest rates than assumed in IPART's 2022 determination.

Our proposed operating expenditures decrease by 1% in real terms compared to the current determination allowances, highlighting WaterNSW's commitment to keep costs within our control low for customers.

Average bills are proposed to increase by around 4.2% per year for Essential Water and 3.1% per year for offtake customers on average, excluding the impact of inflation.

Our proposal is streamlined, fit-for-purpose and recognises the insights gained from our operation of the pipeline over the past six years and the relative stability of pipeline costs over time.

As for the 2022 determination, we understand Essential Water will seek assistance from the NSW Government for the costs of the pipeline to help keep water prices at affordable levels for the Broken Hill community.

We look forward to participating in IPART's process to establish regulated prices for the pipeline that reflect the long-term interests of our customers.

Andrew George
Chief Executive Officer

Our proposal at glance



Our engagement and consultation

- Our **engagement and consultation** for the Wentworth to Broken Hill Pipeline review represents a **fit-for-purpose** way to engage with our customers, community and stakeholders in the Broken Hill community.
- In **meeting IPART's 3Cs framework** WaterNSW engaged with our largest customer - Essential Water, our offtake customers, councils and the Barkandji Native Title Group.
- We **listened and responded to customers, stakeholders and the wider community**. We travelled to where our customers live and work, attended Essential Water customer forums and met face-to-face and online with customers and stakeholders groups.
- 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.



Customer outcomes for 2027-31

- Customers told us what outcomes we should target for the 2027-31 determination period and endorsed our associated performance measures and targets.
- The outcomes we commit to are that WaterNSW will:
 1. Provide **secure and reliable** water delivery.
 2. Play its part in ensuring optimal **water quality**.
 3. Be **efficient and keep its costs as low** as practical.
 4. Continue to **keep customers in the loop** to ensure peak operations and **support Essential Water** in delivering optimal outcomes for end use customers.
- For some customers and community members, Outcome 3 (keeping costs low) ranked highest and we have taken that into account when challenging our costs and in considering our approach to the price path.



How we will deliver on these outcomes

- Investment in **renewing or replacing ageing infrastructure for the pipeline is modest (\$1.4 million)** for the upcoming five-year period. As the pipeline ages we expect this investment to increase in future reviews.

Capital investments are based on a bottom-up risk assessment to ensure we meet service needs and minimise life cycle costs.
- **\$29.8 million (\$2025-26) will be invested in our combined 2027-31 operating program**. We have identified expenditures needed for electricity to pump water, O&M costs to keep the pipeline operating efficiently and effectively and for the pipeline's share of WaterNSW's costs to meet regulatory and customer requirements. Proposed **operating costs reduce in real terms**.
- We commit to a **cumulative efficiency target of 1% of SPV support operating expenditure per year** consistent with our broader organisational efficiency strategy for expenditures within our control.
- We self-assess this proposal to be **standard grade** under the 3Cs framework, that is informed by over six years of **stable operation of the pipeline** since its commissioning and demonstrated ability to deliver.



What this means for prices and bills

- Our proposal is based on the efficient costs of providing transportation services that lead to a revenue requirement of **\$138.5 million** over five years, or an increase of **12.2%** on average (excl. inflation) compared with the current IPART allowance.
- Factors outside of our control, most notably interest rates, are responsible for over **85%** of the increase.
- We propose an electricity true-up mechanism for the current period that will **reduce** future revenues by **\$0.6 million** while fairly and symmetrically managing a key external risk.
- Bills are forecast to increase by **4.2% per year** (plus inflation) for Essential Water and **3.1% per year** (plus inflation) on average for offtakes.
- We have **reduced costs within our control** to minimise pricing impacts.
- We propose to maintain the current pricing structures that operate effectively and are supported by our major customer.

Executive summary

WaterNSW is pleased to submit this pricing proposal to enable IPART to determine maximum prices for the monopoly services for the transportation of water along the Wentworth to Broken Hill Pipeline (transportation services) from 1 July 2026.

WaterNSW is the major supplier of raw water in NSW, delivering raw water from 41 large dams, pipelines and the State's rivers.

The Wentworth to Broken Hill Pipeline (pipeline) system consists of a 270 kilometre subterranean pipeline, pumping stations and bulk water storage facility for transporting, storing and delivering bulk water from the River Murray at Wentworth to Broken Hill and surrounding communities.

In 2017, the Board of WaterNSW received two directions under section 20P of the State Owned Corporations Act from the New South Wales Minister of Lands and Water (November 2016 and August 2017) in relation to the construction, operation and maintenance of a pipeline to deliver low salinity raw water from the River Murray to Essential Water in Broken Hill along the route of the Silver City Highway.

Following a competitive tendering process, WaterNSW engaged the John Holland MPC Group Joint Venture to construct the pipeline, which was delivered on-time and under-budget with the pipeline providing "first water" in December 2018, becoming fully operational in April 2019. The experience and insights gained during the past six years of stable operation form the basis of this streamlined 'fit-for-purpose' pricing proposal.

The capital intensive nature of the existing pipeline with incremental changes in the forecast operating and replacement costs should provide customers and IPART with a high degree of confidence in the robustness of our proposed forecasts and prices.

This proposal sets out WaterNSW's considered views on the historic investment, required future expenditures and resulting revenues to deliver the transportation services for what will be the third IPART determination for the pipeline and the first under IPART's 3Cs framework.

Proposal overview

Scope and length of 2026 Determination

Our proposal is for IPART to regulate the maximum prices that WaterNSW can charge for water transportation services provided by the pipeline through the 2026 Determination and allow negotiated agreements for other agreed services between WaterNSW and offtake customers.

We propose that the regulated charges be set for a period of **five years** from 1 July 2026 to 30 June 2031 (2026 Determination period).

We have the benefit of over six years of operating data since the pipeline became operational. The insights from this period have informed our understanding of our customers' expectations, likely forecast water demand, operating and service standard considerations and the efficient costs of

providing transportation services to meet our legislative and customer obligations. This should provide IPART with the confidence to set a five-year determination period.

What our customers told us

WaterNSW adopted a 'fit-for-purpose' approach to customer and community engagement, taking into account the scale and scope of the direct customer base of the pipeline, the importance of the pipeline to the broader community, the price sensitivity of direct customers and the concurrent end water user engagement being undertaken by Essential Water.

In preparing this proposal, WaterNSW augmented its existing engagement and communication with its customers and the community to focus on key themes such as:

- the historic and future costs of running the pipeline
- potential price envelopes based on these costs
- customers' and stakeholders' views on the historic performance of the pipeline, including WaterNSW's customer service
- customers' and stakeholders' forward priorities
- customers' views on outcomes and output measures.

We have worked closely with Essential Water – our major customer that uses over 99% of the water transported and which then provides that water to end water users in Broken Hill and surrounds.

A key feature of our engagement design was to observe Essential Water's customer engagement with end use customers. These learnings have helped shape our proposal. Specifically, we have examined how customers have influenced Essential Water's priorities and outcomes and the salient role of the pipeline to support end use customer outcomes through Essential Water. The feedback from Essential Water's end use customers was also mirrored to some extent by our engagement with Broken Hill Council which, along with Wentworth Shire Council, gave us community content for our pricing proposal.

The feedback received from offtake customers and Essential Water on customers' priorities, outcomes and output measures reflects the narrow field of operation for the pipeline. Specifically, customers' outcomes and proposed ranking are:

Customer Outcome 1: WaterNSW will provide secure and reliable water delivery

Customer Outcome 2: WaterNSW will play its part in ensuring optimal water quality

Customer Outcome 3: WaterNSW will be efficient and keep its costs as low as practical

Customer Outcome 4: WaterNSW will continue to keep customers in the loop to ensure peak operations and support Essential Water in delivering optimal outcomes for end use customers.

For some customers and community members, Outcome 3 (keep costs as low as practical) ranked highest and we have taken that into account when challenging our costs and in considering our approach to the proposed price path.

Further information about the performance measures associated with each outcome is available in the section below on Customer Outcomes.

Our proposed building blocks

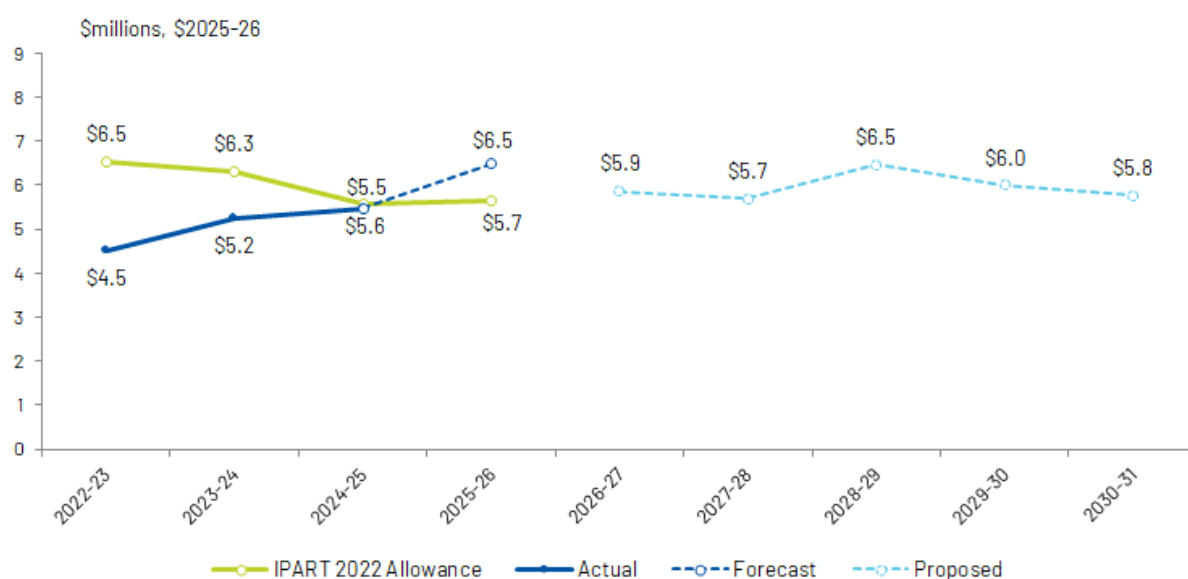
WaterNSW proposes a regulatory pricing framework based on a 'building block' approach to calculating the regulatory revenue requirement and maximum prices. The key elements of our building block proposal (\$2025-26) are as follows:

- opening investment in the **Regulatory Asset Base (RAB)** of \$457 million
- **return on capital** averaging \$13.6 million per year on average based on a post-tax real placeholder WACC of 3.1% based on IPART's February 2025 biannual WACC update
- **return of capital** (regulatory depreciation) averaging \$6.3 million per year with an average asset life of 90 years
- **operating expenditures** averaging \$6.0 million per year over the five years
- **income tax allowance** of \$0.7 million per year and a working capital allowance of \$0.2 million per year
- **revenue adjustments** of \$1.0 million per year, consisting of a cost of debt true-up adjustment of \$1.1 million per year due higher interest rates that is partially offset by our proposed electricity cost true-up of -\$0.1 million per year.

Our proposed operating and capital expenditures are discussed in more detail below.

Forecast operating expenditures for the 2026 Determination period and IPART's average allowance from the current determination are provided in Figure 1 below.

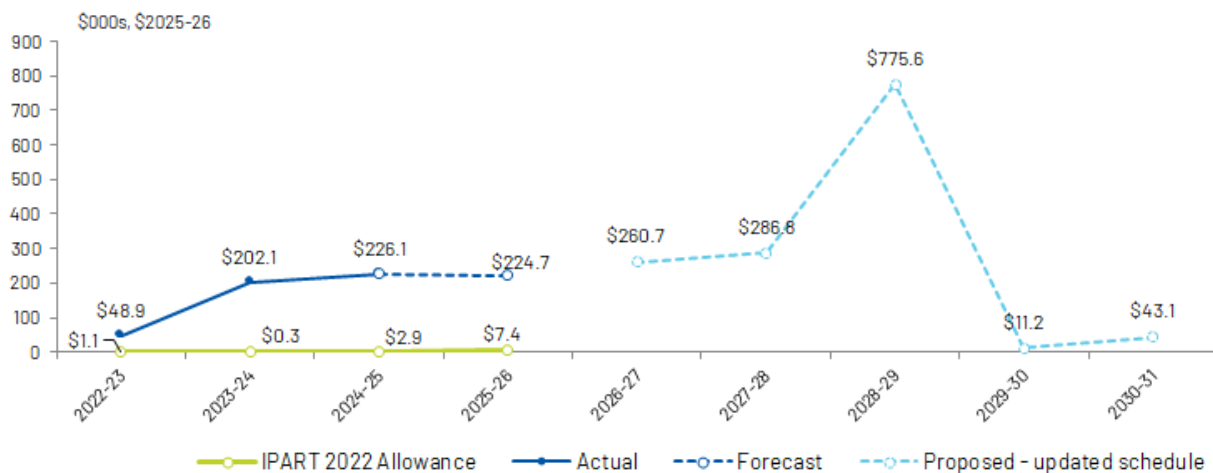
Figure 1: Allowed, actual / forecast and proposed operating expenditure (\$millions, \$2025-26)



Our proposed operating expenditure over the 2026 Determination period is **\$6.0 million per year**. This is \$57,000, or **1%, lower** than IPART's average allowance over the 2022 Determination period and 10% lower than our actual / forecast costs over the 2022 Determination period. Our proposed operating expenditure is derived through a 'Base-Trend-Step' methodology as required in the IPART Handbook that includes:

- **2024/25** as the base year
- **operating and maintenance activities:** \$2.1 million per year as part of our contractual arrangements with the John Holland Trility Group Joint Venture
- **benchmark electricity costs:** \$2.0 million per year
- **asset refurbishment costs:** \$0.2 million per year
- **Special Purpose Vehicle (SPV) support costs:** \$1.2 million per year based on the application of our existing Cost Allocation Methodology (CAM)
- **contract management and other costs:** costs relating to contract management, audits, insurance, regulatory submission preparation, travel, materials and land tax of \$0.5 million per year.

Figure 2: Allowed, actual / forecast and proposed capital expenditure (\$000s, \$2025-26)



Our proposed capital expenditure is **\$1.4 million** over five years or \$275,500 per year. This is \$272,600 higher than IPART's average allowance over the 2022 Determination period and includes:

- **easement acquisition costs** of **\$234,900** over the five-year period or \$47,000 per year
- **asset replacement costs (Essential Water)** of **\$1.1 million** over five years or \$220,000 per year
- **asset replacement costs (Offtakes)** of \$42,500 over five years or \$8,500 per year.

Proposed revenue requirement and prices

The building blocks and expenditures outlined above result in a proposed notional revenue requirement over the five years of the 2026 Determination period of **\$138.5 million** or an average of **\$27.7 million** per year. The components of our proposed revenue requirement are illustrated Table 1 below.

Table 1: Notional revenue requirement (Essential Water and offtakes)(\$000s, \$2025-26)

	FY23-26 Average	2026-27	2027-28	2028-29	2029-30	2030-31	Total	Average
Operating expenditure*	\$6,020	\$5,866	\$5,701	\$6,473	\$6,000	\$5,776	\$29,816	\$5,963
Return on assets	\$12,850	\$13,962	\$13,776	\$13,597	\$13,414	\$13,218	\$67,967	\$13,593
Regulatory depreciation	\$6,066	\$6,281	\$6,287	\$6,307	\$6,323	\$6,324	\$31,523	\$6,305
Return on working capital	\$363	\$629	\$662	\$695	\$727	\$757	\$3,469	\$694
Tax allowance	\$136	\$164	\$164	\$162	\$164	\$162	\$816	\$163
Revenue adjustments^	-\$906	\$974	\$974	\$974	\$974	\$974	\$4,869	\$974
Inflation due to delayed review	\$153	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total NRR	\$24,683	\$27,876	\$27,563	\$28,208	\$27,602	\$27,212	\$138,460	\$27,692

* FY23-26 is the average of the 2022 Determination period. The current determination of offtake OPEX has been adjusted to reflect the higher usage forecast for comparison purposes.

^ Cost of debt true-up and electricity cost true-up (proposed adjustment in 2026 determination period).

Our proposed annual revenue requirement is **\$3.0 million (12.2%) higher** on average compared with the 2022 Determination period average, primarily due to:

- a **higher placeholder post-tax real WACC** for the 2026 Determination period (3.1% compared with 2.8% from the 2022 Determination)
- a **cost of debt true-up** that adjusts the 2026 Determination revenue requirement for the higher interest rates in the current determination period compared to the 2022 Determination cost of debt allowance.

Based on feedback from Essential Water, we propose to maintain the pricing structures from the 2022 Determination as these have operated effectively to manage volume risk.

Proposed variable charges and electricity pumping costs are based on forecast water sales of **6,255 ML** per year on average based on forecasts provided by Essential Water plus a small amount of usage by offtake customers (10.7ML on average) and evaporation losses (233ML on average). The electricity forecasts are 24% below IPART's allowances in the current determination. This reflects Essential Water's reliance on the pipeline as the primary water source for Broken Hill as well as Essential Water's forecast of organic growth in consumption and the actual volume of water recorded by Essential Water for 2024-25.

WaterNSW proposes prices for the 2026 Determination period for Essential Water as shown in Table 2 and prices for offtakes in Table 3 below.

Fixed access charges are proposed to increase for Essential Water by 5.2% per year, excluding inflation, over the 2026 Determination period relative to the last year of the 2022 Determination period (2025-26). Variable usage charges are proposed to reduce by 6.1% per year over the period.

Table 2: Proposed charges to Essential Water (\$2025-26)

\$2025-26	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	%Δ 2025-26 to 2030-31
Access charge (\$/day)	\$60,649.76	\$63,780.14	\$67,072.09	\$70,533.96	\$74,174.50	\$78,002.95	28.6%
Annual Change (%)		5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Usage charge (\$/ML)	\$420.00	\$311.58	\$309.15	\$311.82	\$311.32	\$307.19	-26.9%
Annual Change (%)		-25.8%	-0.8%	0.9%	-0.2%	-1.3%	-6.1%

* The fixed charge will be levied irrespective of water take.

Table 3: Proposed charges per offtake outlet (\$2025-26)

\$2025-26	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	%Δ 2025-26 to 2030-31
Access charge (\$/day)	\$20.21	\$20.91	\$21.64	\$22.40	\$23.18	\$23.99	18.7%
Annual Change (%)		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Usage charge (\$/kL)	\$0.42	\$0.31	\$0.31	\$0.31	\$0.31	\$0.31	-26.9%
Annual Change (%)		-25.8%	-0.8%	0.9%	-0.2%	-1.3%	-6.1%

* The fixed charge will be levied irrespective of water take. Price is levied for each offtake outlet.

As outlined in Section 18, WaterNSW's proposed annual bills for Essential Water are forecast to increase by **4.2% per year** (plus inflation).

Annual bill increases for offtakes are proposed to increase by **1.7% per year** for a large-sized customer, **3.1% per year** for a medium-sized customer and **3.3% per year** for a small-sized customer.¹

WaterNSW is proposing the continuation of the voluntary unregulated pricing arrangements endorsed by IPART in the Final Determination for additional offtake customers. We confirm there are currently no voluntary unregulated pricing agreements entered into with offtake customers.

Our approach to managing risk

WaterNSW proposes an efficient approach to risk mitigation that largely reflects the mechanisms contained in our 2021 pricing proposal and the 2022 Determination, updated as relevant to address IPART's comments in 2022.

This includes a pragmatic approach to implementing the electricity cost true-up that was accepted in principle by IPART in the 2022 Determination to efficiently manage movements in electricity costs that are beyond WaterNSW's reasonable control. We set out in this proposal how movements in the network, wholesale and renewable elements of the electricity benchmark price over the 2022 Determination period are "trued-up" in a manner that provides a fair sharing of risk between customers and WaterNSW (see Section 8.5).

¹ \$2025-26. Indicative small / medium / large offtake usage is 0.5 ML / 1.0 ML / 5.0 ML per year, respectively.

Our proposal has been developed to ensure WaterNSW is incentivised to take accountability for events within our control, and we propose mechanisms to ensure WaterNSW is not unreasonably exposed to risks outside of our control. We have proposed a balanced approach to risk mitigation that is in the long-term interests of customers and that has been supported by our major customer, Essential Water.

This approach is identified in Section 7.

A streamlined fit-for-purpose pricing proposal

We support and propose to retain most aspects of the existing regulatory framework for the 2026 Determination period, making only incremental changes as required.

To assist our customers, stakeholders and IPART to consider our submission, we have summarised the key changes we are proposing over the 2026 Determination period. The changes include:

- incorporating **IPART's 3Cs framework**, including:
 - reflecting our **customers' preferences** in our proposed revenues and prices, including proposing average annual revenue and pricing adjustments rather than an up-front "P naught" adjustment based on the preference of Essential Water
 - adopting the **customer outcomes** identified during our engagement program for the 2026 Determination period
 - developing our operating expenditure proposal using IPART's **Base-Trend-Step** methodology using our most recent (2024-25) financial information that includes, amongst other things, updated electricity cost forecasts
 - proposing a **1% per year cumulative efficiency target** on SPV support operating expenditures consistent with our organisational efficiency strategy for expenditures within our control
 - proposing a self-assessed **standard grading**
- proposing a **placeholder post-tax real WACC of 3.1%** based on IPART's February 2025 biannual update that is higher than the 2.8% from the 2022 Determination
- providing up-to-date **asset renewal and refurbishment information** that reflects an external review of the condition of the pipeline infrastructure and capitalising some of the expenditure
- proposing a **risk management framework** that fairly balances the risks for WaterNSW and our customers and includes a pragmatic and mechanistic approach to give effect to the **electricity cost true-up**, noting this results in a cost decrease (a -\$0.6 million revenue adjustment) in the 2026 Determination period
- proposing **revenues and prices** for Essential Water and offtakes based on forecast changes in efficient costs and water usage.

Our proposed changes aim to provide:

- **customers** and **IPART** with confidence that prices are likely to reflect the efficient cost of providing transportation services over the 2026 Determination period

- **WaterNSW** with greater focus and accountability for those costs within our control and incentives to provide transportation services in a manner that is in the long-term interest of customers.

The changes will promote efficient investment in and efficient operation and use of the transportation services in the long-term interests of customers.

How our operating experience has informed this proposal

In 2017, WaterNSW was given a mandate to deliver a critical piece of infrastructure to ensure Broken Hill did not run out of clean drinking water, leveraging our significant experience in managing, maintaining and operating other pipelines throughout the state.

Notwithstanding, in the design and construction of the pipeline it was necessary to draw on third party data from around the world for analogous systems to establish a starting point that would allow actual data and experience to be substituted over time in a controlled and considered manner.

WaterNSW now has six years of practical experience of:

- operating and maintaining the assets
- aligning our operating rhythms with the needs of Essential Water and our offtake customers
- water consumption (pumping volumes), pumping profiles and peak demand by Essential Water and offtake customers
- optimising the pumping profile to achieve the required customer outcomes, managing energy costs and optimising asset use.

This practical experience has provided critical insights that we have relied on when analysing past performance and making our forward proposal, including, but not limited to:

- pumping volumes and pumping profiles
- energy profiles, such as half hourly data, peak demand and fixed energy use
- renewals (maintenance) expenditure
- replacement (capital) expenditure
- customer operational requirements and customer outcomes.

While our actual experiences are instructive in setting our forward proposal, we are comforted that this information has resulted in refinements to previous estimates and modelled data, rather than suggesting significant or seismic changes.

How our experience has been used in refining each of these areas are detailed in the relevant sections. As a result, WaterNSW is confident that it is well positioned to put forward a 5-year regulatory proposal.

Pricing proposal of a 'standard' grading

WaterNSW proposes a self-assessed "**standard**" grading for this regulatory proposal as outlined in Attachment 3.

1. About this proposal

IPART sets the maximum prices WaterNSW can charge for the water transportation services provided by the Wentworth to Broken Hill Pipeline.

Essential Water is the primary customer of the pipeline and pays almost all (more than 99%) of the costs of providing water transportation services. These costs are passed on to end-use water customers in Broken Hill through Essential Water's residential and non-residential prices, which are subject to a separate IPART determination.

IPART's 2022 Determination of prices for WaterNSW's water transportation services expires on 30 June 2026. WaterNSW has prepared this pricing proposal for the five-year period commencing 1 July 2026.

This pricing proposal forms part of a broader package of information that encompasses information which is specifically required under IPART's July 2023 Handbook² including:

- pricing proposal main submission document
- 16 attachments including:
 - Annual Information Return (AIR) and Special Information Return (SIR)
 - Board Attestation certifying, amongst other things, the accuracy of the information provided.

1.1 How to navigate this submission

The remainder of this submission is structured as follows.

- Section 2 provides information on our approach to customer engagement
- Section 3 provides background information on the role and functions of WaterNSW
- Section 4 provides background information on the Wentworth to Broken Hill pipeline and our performance and operational experience during the current regulatory period
- Section 5 explains our services and how we have engaged with stakeholders and reflected their feedback in our plans for the 2026 Determination period
- Section 6 sets out the proposed regulatory framework, including the length of determination period as well as the proposed risk mitigation mechanisms to manage risks and uncertainties
- Section 7 outlines how WaterNSW will deliver the outcomes we have committed to
- Sections 8 to 15 detail the proposed revenue requirement and the underlying components, including forecast operating expenditure, forecast capital expenditure, the regulatory asset base, the return of capital (regulatory depreciation) and rate of return
- Section 16 outlines our forecast customer numbers and water usage forecasts

² IPART Water regulation Handbook, July 2023.

- Section 17 details the proposed price structure, and proposed prices and charges for the 2026 Determination period; and customer and bill impacts of our proposed prices
- Section 18 provides our proposed customer prices and bill impacts.

Our pricing proposal comprises this main submission document including Attachments 1 to 16 as submitted by WaterNSW to IPART on 30 September 2025.

This pricing proposal sets out our forecast revenue requirements and prices for transportation services on the Wentworth to Broken Hill Pipeline from 1 July 2026 to 30 June 2031.³

1.2 Basis of figures used in this pricing proposal

Unless otherwise stated, the dollars values contained in this pricing proposal for the 2026 Determination period are:

- expressed in 2025-26 dollars (i.e. exclude the impacts of inflation)
- exclude GST.

1.3 Subsidiary (Special Purpose Vehicle)

To ensure full ring-fencing of costs and responsibility for the project, the Board of WaterNSW approved the formation of a wholly owned proprietary company limited by shares under the *Corporations Act 2001* (Cth) to construct, operate and maintain the pipeline. The subsidiary, or special purpose vehicle (SPV), was established on 5 November 2018. Net assets for the operations of the company were transferred to the entity in April 2019, and the company commenced its operations on 5 April 2019.

The primary contracts for the pipeline (Design and Construct (D&C) and Operations and Maintenance (O&M)) have been novated to the SPV.

This pricing proposal is for IPART to set prices to be charged for the pipeline by the SPV on behalf of WaterNSW from 1 July 2026. This document refers to WaterNSW and not the SPV. Generally, references to WaterNSW for events that occurred after the date of novation of the primary contracts, are references to the SPV acting on behalf of WaterNSW.

³ Tables may not add due to rounding.

2. Customer engagement

Consultation for this pipeline review has been developed around IPART's 3Cs framework and builds on our recent WaterNSW experience. The scope of our consultation ensures that:

- we are delivering the outcomes that customers and community need and want
- our costs are kept prudent and efficient
- we have a pricing proposal and delivery plan that are credible

This engagement was designed to be fit-for-purpose for the small number of customers and stakeholders, comprised of one large customer, Essential Water, four small offtake customers, one stakeholder who was a former offtake customer, two Stakeholder Councils and the Barkandji Native Title Group. The consultation was designed to be targeted and efficient, to leverage Essential Water's own engagement with their customers for their pricing submission to IPART and to use our learnings from our recent Rural Valleys and Greater Sydney IPART bulk water pricing engagements.

At the outset, we already had a strong relationship and connections with Essential Water, with regular meetings at an operational and regulatory staff level, but little prior information or ongoing contact with offtake customers outside of providing regular updates on water take opportunities.

We have produced a pricing proposal that reflects customer and stakeholder priorities and delivers good value to our customers, balancing the needs of different customers and stakeholders for this project.

The engagement is limited to the customers and stakeholders affected by the Wentworth to Broken Hill Pipeline. Community insights have been derived from observations from Essential Water's consultation with its 10,000 customers, and also by direct consultation with both Wentworth Shire and Broken Hill Councils.

Pricing increases for offtake customers are relatively modest and based on IPART's approach from the 2022 Determination for these customers updated for current and forecast costs.

WaterNSW has been meeting with the Barkandji Native Title group to assess future land requirements in a parallel process to our pricing engagement. We have forecast approximately \$234,900 for easement acquisition administration costs in the 2026 Determination period as outlined in Section 9 and have proposed a 'true-up' mechanism should actual costs differ from this forecast.

The Barkandji Native Title Group is an important stakeholder on the Wentworth to Broken Hill Pipeline. As part of our pricing engagement, we wrote to and had a follow up conversation with the CEO of the Barkandji Native Title Group. The Barkandji Native Title Group (Barkandji) chose not to engage further in the pricing proposal engagement for the pipeline, and expressed that they were confident their parallel engagement for the ILUA would deliver on the outcomes they need in the region.

There are three distinct phases of our engagement activities as illustrated below.

Figure 3: The three phases of our engagement activities

Time	Phase and Activity	Stakeholders
February – April 30	Phase One: Exploring Phase - Initial contact with Essential Water and scoping, discussion of the IPART 3C's framework, establish top priorities. - Permission sought and obtained to observe Essential Water's engagement. - Briefing from Essential Water to understand early learnings. - Engagement with other organisations with similar consultations (Sydney Desalination) for lessons learned. - Formal engagement session for exploration phase to set priorities, and inform topics for Phase Two	Essential Energy, Sydney Desalination Plant, Wentworth Shire Council, four smaller customers.
May	Phase Two: Diving into the Detail - Formal engagement with Essential Water on projects/ initiatives which speak to their priorities. - Consult with smaller customers. - Consult on the cost and prices associated with water delivery. Gather feedback.	Essential Energy and four smaller customers, Wentworth Shire Council
June – July	Phase Three: Closing the Loop - Demonstrate iteration and where we have incorporated customer feedback into our plans. Discuss prices. - Write up Engagement report.	Essential Energy, Wentworth Shire Council and four smaller customers

2.1 Fit-for-purpose engagement

WaterNSW adopted a fit-for-purpose approach to customer and community engagement, taking into account the scale and scope of the direct customer base of the pipeline, the importance of the pipeline to the broader community, the price sensitivity of direct customers, and the concurrent end water user Pricing engagement being undertaken by Essential Water.

2.2 Building on existing interactions

In preparing for this proposal, WaterNSW designed our engagement and communication with its customers and community to focus on key themes such as:

- customers' and stakeholders' forward priorities
- customers' views on outcomes and output measures
- the historic and future costs of running the pipeline
- potential price envelopes based on these costs
- customers' and stakeholders' views on the historic performance of the pipeline, including WaterNSW's customer service

2.3 Collaboration with Essential Water

We have worked closely with Essential Water, our major customer that uses over 99% of the water transported and who then provides that water to end water users in Broken Hill and surrounds. We sought to align our engagement with Essential Water's and to support wherever possible their customer outcomes in order to assist our major customer and the communities they serve.

To this end, we directly observed Essential Water's customer engagement and have incorporated our learnings and observations from that process in developing our proposal. In particular, we have heard how customer's views have influenced Essential Water's priorities and outcomes, and note the enduring purpose of the pipeline in supporting the population of Broken Hill with Essential Water.

2.4 Key messages

Throughout this process we have delivered a number of key messages:

1. We are listening to our pipeline customers and stakeholders and working to deliver on the outcomes they value
2. We are working to keep costs fair and to make sure our business is efficient
3. Market factors are increasing outside our control, some fluctuations are unavoidable
4. We keep local communities front of mind as your community partner
5. We are making it easier to do business with us by giving you access to information where and when you need it
6. We are investing in our assets to maintain these for future generations.

2.5 Communication approach

Our engagement design was shaped by a targeted, fit-for-purpose approach, with focused communications and engagement to individual customers and stakeholders. This has entailed discussion with Essential Energy, regional Councils, offtake customers and the Barkandji Native Title Aboriginal Group, and an adaptive plan so that our engagement best reflects how these parties wish to be engaged, and the outcomes they most value. We have also sought to learn from other similar engagements external to WaterNSW, including preliminary discussions with the Sydney Desalination Plant which has similar relationships.

We enjoy a mature relationship at an operational level with Essential Water and seek to build on this strength in our engagement. We have sought to observe Essential Water's engagement, to understand their perspective on key learnings and to identify ways in which we might best support them to deliver their customer outcomes. The alignment between our engagement and our understanding of theirs, is key to producing a set of nuanced customer outcomes to support our key customer and their end use customers in the region. Further detail of our approach is contained in Attachment 4 – WaterNSW Engagement Plan Wentworth to Broken Hill Pipeline.

2.6 Communication tools

A mixture of online and face to face engagement was utilised, in accordance with what best suited our customers and stakeholders. A number of trips to Broken Hill were undertaken, both to meet with offtake customers and to observe Essential Water's customer engagement for their Pricing Proposal.

Our learnings, reflected in our customer outcomes and performance measures, have been a product of many conversations and demonstrate a high level of coordination with Essential Water as we closely listen to their customer priorities and performance measures.

Further detail of these multiple conversations with customers and stakeholders and their outcomes are contained in Attachment 5 - Wentworth to Broken Hill Pipeline Customer and Community Engagement Report 2025.

2.7 Customer engagement meetings and workshops

We held a number of team and preliminary informal meetings with Essential Water. In response to their request, we reduced the formal number of sessions from three to two, and used these to ask targeted questions and deliver detailed pricing information, updating them as new information became available. These were highly targeted and productive sessions with most participants noting they exceeded expectations. The final closing the loop session was conducted as part of the regular regulatory teams' monthly meeting, in line with their request.

We talked with offtake customers in person, on the phone and also conducted Teams meetings for two customers. We returned to offtake customers to let them know how their feedback had been incorporated into our pricing proposal.

We wrote to the Barkandji Native Title Group, and followed up with phone calls to gauge their interest in the process, noting that we have a concurrent parallel process regarding Native Title and an ILUA in development for this purpose.

2.8 What we learnt from observing Essential Water's customer engagement

A key feature of our engagement design was to observe Essential Water's customer engagement with end use customers. These learnings and key threads have helped shape our proposal.

Specifically, we have examined how customers have influenced Essential Water's priorities and outcomes and the salient role of the pipeline as critical infrastructure to support end use customer outcomes through Essential water. The feedback from Essential Water's end use customers also broadly mirrored our engagement with Broken Hill Council which, along with Wentworth Shire Council, gave us community content for our Pricing proposal. However, Essential Water's engagement also revealed that where Broken Hill Council wanted to encourage sustained usage to mitigate health risks of lead dust, residential customers differed and felt this shouldn't have an

impact on pricing. They also didn't believe there would be benefit in scaring customers with big price rises which, in the final analysis, would not impact them. Essential Water was encouraged to communicate the materiality of the outcome and take a broader view.

Early in Essential Water's engagement they identified that their customers valued water quality and security and wanted Essential Water to work collaboratively with other government agencies including WaterNSW. Clearly these also carried through in our engagement and are well represented in our outcomes and their associated performance measures.

2.9 Proposed Customer outcomes

The feedback received from offtake customers and Essential Water on customers' priorities, outcomes and output measures reflects the bespoke field of operation for the pipeline. Specifically, customers' outcomes and proposed ranking are:

Customer Outcome 1: WaterNSW will provide secure and reliable water delivery

Customer Outcome 2: WaterNSW to play its part in ensuring optimal water quality.

Customer Outcome 3: WaterNSW will be efficient and keep its costs as low as practical

Customer Outcome 4: WaterNSW to continue to keep customers in the loop to ensure peak operations and support Essential Water in delivering optimal outcomes for end use customers. Transparency and consistent communication valued in this process.

In addition to the four outcomes, it was agreed that alignment between the two Pricing Proposals was a principle and a goal, to ensure clarity of purpose was borne out in clear and optimal outcomes for our customers and Essential Water's end use customers.

For some offtake customers, outcome 3 ranked highest for them and we have taken that into account when challenging our costs and in considering our approach to the price path. It was also noted in later consultation with Essential Water that outcome 3 was ranked third in the context of the subsidy which operates to keep end use customer costs down. In the absence of the subsidy, Essential Water noted outcome 3 would become outcome 1.

These proposed outcomes reflect the clear feedback from customers on their priorities and we have adopted the related focus principles to give effect to these priorities being:

- Customer Outcomes
- Robust Costs
- Delivering.

2.10 Proposed Output measures

Performance measures were derived in close consultation with Essential Water, our four offtake customers, Broken Hill Council and Wentworth Shire Council.

Our second engagement session with Essential Water built on the priorities and outcomes identified in our first session, and the proposed measures we put forward were accepted without change. This process speaks to the maturity of the working relationships between Essential Water and WaterNSW. This was identified by Essential Water's Head of Water Operations in Session One who

also confirmed that the operating relationships and performance were currently working very well and required no major improvement.

Should a problem arise in the performance of water delivery service, Essential Water felt confident they had the formal systems and processes, as well as the ease of mature informal relationships, to expeditiously and easily resolve any issues.

In terms of agreed measures, other stakeholders accorded with those identified by Essential Water, but they differed slightly in order of priority. For instance, many of the offtake customers identified that affordability would be their top concern, followed by security of supply. Following our conversations, offtake customers stated they felt less concerned about the scale of increase expected.

Essential Water observed that the ongoing operation of the subsidy from the NSW Government for the costs of the pipeline was in place to manage impacts on end customer prices and affordability. However, it is noted that the subsidy is periodically reviewed, and if the funding were to reduce or cease, affordability would become the number one priority for Essential Water. Hence, the criticality of retaining the government subsidy on prices for Broken Hill was underlined in our engagement.

Our second session with Essential Water included a detailed conversation around priorities and performance measures, and they reordered their priorities in this session to place water quality above affordability, but noted the importance of context above in achieving this.

Broken Hill Council were critically interested to confirm that the main purpose of the pipeline was to supply the population of Broken Hill, and therefore security of supply was clearly their number one priority.

The four priorities and their associated performance measures, in view of all these inputs are:

Customer Outcome 1: Secure and reliable water supply

WaterNSW will provide secure and reliable water delivery

How can we achieve this?

- Maintain the water delivery assets and improve our understanding of the water system – quality and volume (drought planning was an important part of this outcome).
- Trility in consultation with WaterNSW have developed specific management plans including an *Operations Management Plan (OMP)* and a *Communication Protocol – Essential Water & Offtake Customers*.
- The OMP ensures that the project is operated in an efficient and optimal manner with the main goal to provide water to an acceptable quality and quantity in accordance with all relevant standards. To meet this objective, the OMP will ensure compliance with all relevant safety and environmental legislation and standards.

How could we report on this?

- Use existing systems and channels to report.
- Annual performance report is comprehensive, transparent and timely including reporting on progress with maintaining our assets
- Monitor water balance across the system and report on any losses as required.

- Report against government standards for cyber protection of data and critical infrastructure.

WaterNSW continues to report to IPART on the set of performance indicators for the Pipeline as part of its Annual Information Return (AIR), as outlined in Figure 4 below. This is separate to Customer Engagement on the Pipeline.

Customer Outcome 2: Water quality

WaterNSW to play its part in ensuring optimal water quality

How can WaterNSW “lean in” to best support EW’s monitoring and delivery?

How can we achieve this?

- Trility in consultation with WaterNSW have developed specific management plans for Water Quality (Attachment 5, 16.1) and Algal Management. These are reviewed annually. Compliance with Algal Management Plan, including timely reporting of algal blooms to Essential Water and other customers in accordance with WaterNSW’s *Communication Protocol - Essential Water and Offtake Customers*.
- The *Water Quality Management Plan* has a guiding principle – that the delivered water quality shall not significantly reduce from the quality of the water sourced from the River Murray.
- Water quality sampling and monitoring points exist at multiple locations throughout the system from the RMPS (River Murray Pumping Station) through to the outlet of the BWS (Bulk Water Storage).

How could we report on this?

- Notification of algal events will be made to WaterNSW’s nominated personnel with advice being provided to Essential Water by WaterNSW personnel.

Customer Outcome 3: Efficiency and keeping costs low

WaterNSW will be efficient and keep its costs as low as practical

How can we achieve this?

- Affordability concerns will be raised in our submission, and we will note the continued operation of the subsidy for Broken Hill.
- Recognise the significance of the government subsidy for end use customers, to ameliorate impacts.
- When referencing the subsidy, we will consult with EW on wording. Be mindful of this context in our approach in our pricing proposal.
- Only spend in accordance with our agreed revenue.
- Implement a true-up for benchmark energy costs to ensure that WNSW does not receive more (or less) revenue than is required to fund the benchmark costs.
- Commit to a cumulative efficiency target of 1% of SPV support operating expenditure per year, consistent with our broader organisational efficiency strategy that represents ongoing expenditures within our control.

How could we report on this?

- Annual reporting on how we are working within our revenue allowance to CAGs, as part of reporting provided for all regulated business segments.
- Operational reporting in the CAGs.

Customer Outcome 4: Communication

WaterNSW to continue to keep customers in the loop to ensure peak operations and support EW in delivering optimal outcomes for end use customers. Transparency and consistent communication valued in this process.

How can we achieve this?

- Continue to utilise existing formal and informal channels to build relationships.
- We have developed a **Customer Engagement Policy** – a series of commitments to customer and community engagement. Send link to EW and Offtake customers on the pipeline.
- Essential Water is now a valued CAG member – so through the CAG.

How can we report on this?

- Fit for purpose monthly and annual reporting/engagement currently in place.
- Continue to apply our communication protocol for Essential Water and offtake customers.

2.11 Where Customer Outcomes are evidenced in our Pricing Proposal (by Section)

The following table details where outcomes and their associated performance measures are evidenced in our Pricing Proposal, by section: This information is linked to our broader compliance checklist at Attachment 2.

Table 4: Evidencing customer feedback

Outcome or issue	Identified by which stakeholders/ customers	Where this is evidenced in our Pricing Proposal (Section)
1. Security of supply	EW Consultation, offtake customers and Broken Hill Council particularly	Customer Outcomes, Output Measures, Section 4. The Wentworth to Broken Hill Pipeline, Section 7 How we will deliver these outcomes
2. Water quality	EW – raised in priority to number two	Customer Outcomes, Output Measures, 5. Raw Water Supply Agreement with Essential Water, Section 7 How we will deliver these outcomes
3. Pricing affordability	EW – role of subsidy noted, otherwise would be number 1 priority	Customer Outcomes, Output Measures, 6. Proposed Regulatory framework, Section 7 How we will deliver these outcomes
4. Communication and Transparency	Optimal visibility of pricing parameters and operational communication	Customer Outcomes, Output Measures, Section 7 How we will deliver these outcomes
5. Principle of alignment between two Proposals	To optimise outcomes for our primary customer Essential Water and for end-use customers.	Customer Outcomes
6. Barkandji NTG outcomes	Outcomes associated with Barkandji NTG aspirations	Section 7.1.4 Easement acquisition cost true up

Feedback on the Engagement process

We asked Essential Water participants in our direct engagement for feedback on each of our three sessions. These were:

1. Did today's first session fall short of, meet or exceed your expectations?
2. If it's noteworthy, what did you enjoy the most/ the least?
3. Any further suggestions?

A majority of participants felt that the session exceeded expectations, enjoyed pricing content the most, and had no suggestions for improvement.

2.12 Reporting of past performance

When making the current determination IPART established a number of datapoints that it required WaterNSW to capture as part of its annual reporting obligations. The data that IPART required to be captured is set out in Figure 4 below. It is notable that the data to be reported is not of the nature of a performance measure, rather it is clearly designed to be data capture to assist IPART in making future decisions, and this was highlighted by IPART when setting these requiring requirements.

Figure 4: Performance Indicators Table sourced from the 2022 Determination

Table 4.5 Performance indicators for the Pipeline

Category	Performance indicators
Revenue	Actual revenues in relation to: - The Pipeline's water transportation service - Offtake revenues
Expenditure	Annual reporting on each of the Pipeline's capital expenditure and operating expenditure items, including electricity costs
Water quantity	- Monthly volume of water delivered to the bulk water storage facility - Monthly volume of water in the bulk water storage facility relative to total capacity of the facility - Monthly volume of water delivered to Essential Water - Monthly volume of water delivered to offtakes
Assets	- Energy usage by pump station at off-peak, shoulder and peak times each month (measured in kWh) - Number, type and size (in dollar terms) of efficiency initiatives effected under the O&M Contract's efficiency benefit sharing scheme - Electricity savings (defined as the John Holland Trility JV's actual electricity costs minus electricity payments made by WaterNSW to the JV) that are made under the O&M Contract's electricity saving sharing mechanism - Total number of times in which the Pipeline is placed in shutdown and standby modes - Frequency of times in which the Pipeline is placed in shutdown and standby modes by Essential Water

Source: IPART, WaterNSW Murray River to Broken Hill Pipeline, May 2019, p 80.

While WaterNSW has complied with the Annual Information Return (AIR) process to report on the set of performance data for the pipeline as outlined in the 2022 Determination, most of the data reported from the table above has been used as direct inputs to information captured throughout this regulatory proposal, notably:

- Actual annual revenue data is captured in section 15.3.
- Actual annual expenditures are captured in section 9.1 for capital costs and section 8.8 for operating costs.
- Water quantity data can be found in section 16.2.1.
- Energy usage information can be found at section 8.5.2 and illustrated in Figure 18 and in Attachment 9.
- It is notable that IPART adopted the approach of using benchmark energy prices and costs for setting the allowances and we have adopted the same approach in preparing this proposal and therefore the relevant energy cost information can be found at section 8.5.4 and illustrated in Figure 18 and in Attachment 9.
- And while not captured elsewhere in this proposal the annual AIR provided to IPART shows zero instances of any shutdowns.

3. The role and functions of WaterNSW

3.1 Our structure and purpose

The *Water NSW Act 2014* (NSW) (WaterNSW Act) came into effect on 1 January 2015, thereby creating WaterNSW as a statutory SOC under that Act.

WaterNSW further increased its scope on 1 July 2016 when the *Water NSW Amendment (Staff Transfers) Act 2016* took effect to facilitate the transfer of employees of the then Department of Primary Industries – Water to WaterNSW. This enabled WaterNSW to carry out delegated functions⁴ 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.

The objectives and functions of WaterNSW were refined to reflect and consolidate the functions of the SCA and State Water Corporation into a single entity.

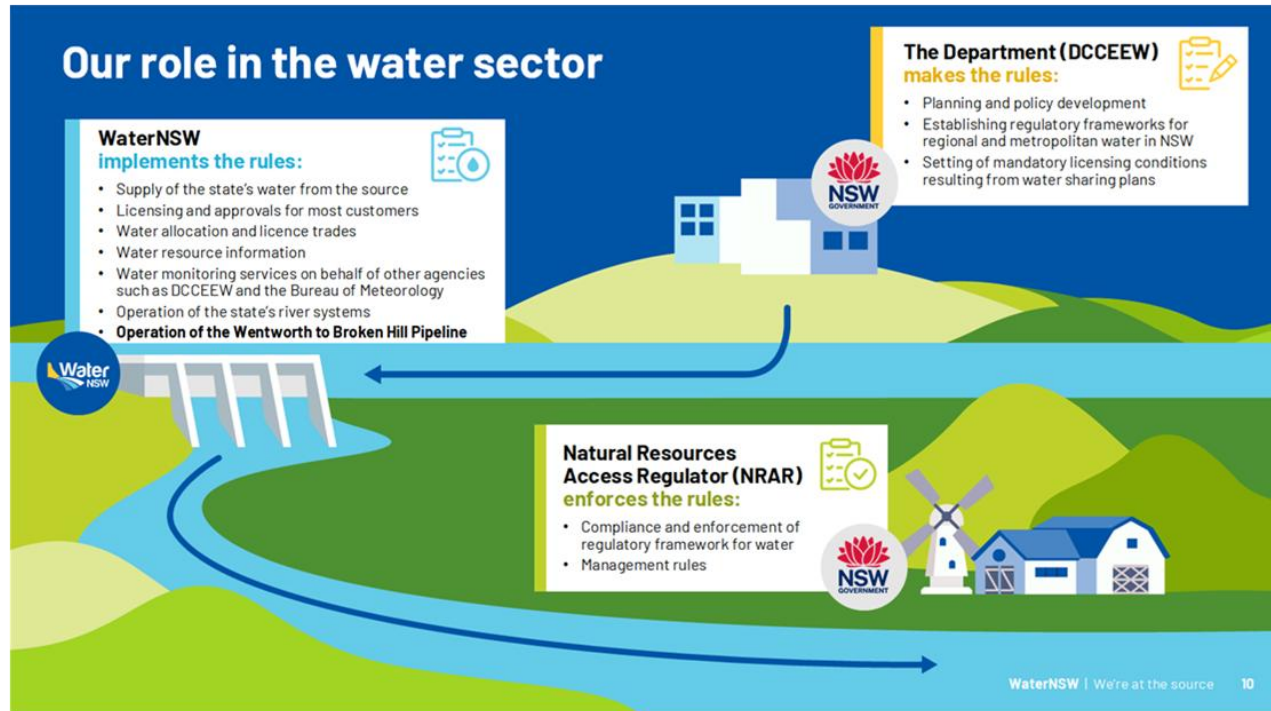
3.2 Our role in the water sector

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 also is responsible for the operation of the Wentworth to Broken Hill Pipeline, which is the subject of this pricing proposal. The following figure illustrates WaterNSW's role in the water sector.

⁴ The delegations are contained in Schedule A of the WaterNSW Operating Licence 2017-2022.

Figure 5: Our role in the water sector



3.3 Our regulated and non-regulated services

Figure 6 sets out the regulated functions carried out by WaterNSW, including those contained in the four determinations which WaterNSW is subject to.

Figure 6: WaterNSW functions

Broken Hill Determination	Greater Sydney Determination	WAMC Determination	Rural Valleys Determination
Pipeline Operator Customer interface Infrastructure owner / operator	Bulk Water Supply System Operator Source Water Protection Infrastructure planning, delivery and operation Customer interface	Licensing transaction Water monitoring for DPIE-W Customer licensing enquiries Customer billing and account management meter and water take assessments & reading	Bulk Water Supply System Operator Customer ordering and information Infrastructure planning, delivery and operations Customer support, including billing, account management and customer interface

WaterNSW's monopoly (i.e. regulated) services are the subject of four separate IPART price determinations:

- The maximum prices WaterNSW can charge for the water transportation services provided by the pipeline were set by IPART in the – *Maximum prices for water transportation services supplied by WaterNSW to Broken Hill Pipeline – Final Determination, November 2022.*
- The services we supply to Sydney Water and some councils and minor customers in the Greater Sydney area are subject to the IPART June 2020 Determination – *Maximum prices for Water NSW's Greater Sydney Services from 1 October 2025.*
- The services we supply to irrigators, regional councils, mines, energy companies and environmental water holders in rural areas are subject to the IPART June 2025 Determination – *Maximum prices for Water NSW's Rural Bulk Water Services from 1 July 2025.*
- The services we supply under our conferred WAMC functions are subject to the IPART September 2021 Determination – *Water Administration Ministerial Corporation, Maximum prices for water management services from 1 October 2021.* We share this revenue with the Department of Climate Change, Energy, the Environment and Water (DCCEEW) and the Natural Resources Access Regulator (NRAR) which also provide WAMC services. On 29 September 2025, IPART released a new determination that takes effect from 1 October 2025.

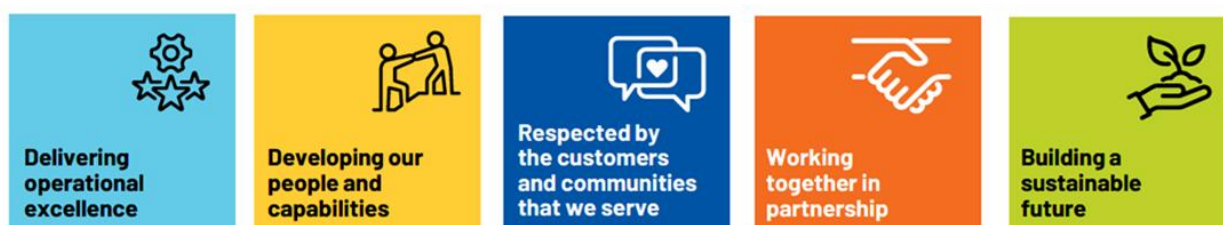
WaterNSW also supplies non-monopoly services such as leasing some of our facilities and certain commercial hydrometrics services.

3.4 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 what is required to address our various regulatory and legislative obligations at the lowest sustainable cost.

Our pricing proposal is a measured, appropriate and least sustainable cost approach to meeting these requirements and is aligned to our longer-term strategy and vision. To meet the aspirations articulated in 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 7: 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.

3.5 Our pricing proposal

This pricing proposal covers the services contained in our Wentworth to Broken Hill Pipeline 2026 Determination. It does not cover pricing for the provision of bulk water services to Greater Sydney, bulk water services to Rural Valley customers, or WAMC functions conferred on WaterNSW.

However, it is important to adopt a consistent approach, recognising decisions made by IPART in other price determinations (including the recovery of corporate costs and the allocation of shared costs) may have implications for the pipeline 2026 Determination.

This pricing proposal relates to the monopoly services in respect of the pipeline and will be subject to a separate IPART determination under the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW) (IPART Act).⁵

3.6 Implementation of IPART Determination under section 18 of the IPART Act

WaterNSW is subject to several IPART pricing determinations in providing regulated services. The services we supply to Essential Water and a small number of landholders near Broken Hill for the Wentworth to Broken Hill Pipeline are subject to the maximum prices under the IPART Determination *Maximum prices for water transportation services supplied by Water NSW for the Murray River to Broken Hill Pipeline - Final Determination - November 2022*, which applies from 1 January 2023 to 30 June 2026.

This determination sets out the maximum price and methodologies for calculating the maximum price WaterNSW can charge its customers for pipeline services. WaterNSW has implemented the outcomes of the IPART determination by charging customers the prices as specified by IPART.

⁵ The water charge rules under Part 4, Division 1 of the *Water Act 2007* (Cth) do not apply, as section 91(3) of the Act provides that the Division does not apply to charges in respect of urban water supply activities beyond the point at which the water has been removed from a Basin water resource. Under sub-section 91(1)(b) offtake customers (stock and domestic) are not prescribed by the regulations (s1.05A) as the water must be made available through a bulk water service, that is, one provided for the delivery of water is primarily delivered on-river. Under sub-section 91(1)(d) offtake customers are not of a kind prescribed by the regulations (4.01A) as they relate to an urban water supply network – water service infrastructure that is operated primarily for delivering water for an urban water supply activity beyond the point at which the water has been removed from a Basin water resource. In addition, WaterNSW is not deemed a Part 6 Operator for the purposes of the Commonwealth Water Charge Rules 2010 created under the Water Act (Cth) according to the ACCC.

4. The Wentworth to Broken Hill Pipeline

The purpose of the Pipeline was to connect Broken Hill to the River Murray to replace the Menindee Lakes as Essential Water's primary bulk water supply and deliver long term water security to the Broken Hill community. The Pipeline also provides bulk water transportation services to individual customers via offtakes constructed along the Pipeline.

The Pipeline has been designed to run along the Silver City Highway and transport bulk water from the River Murray in Wentworth to Essential Water in Broken Hill. This represents a distance of 270 kilometres and an elevation of approximately 280 metres.

The Pipeline transfers water from the River Murray to a Bulk Water Storage owned and operated by WaterNSW. This Bulk Water Storage has a capacity of 830 megalitres (ML), capable of meeting Broken Hill's demand for 22 days.

Figure 8: WaterNSW's bulk water storage facility



Following a competitive tendering process in October 2017, WaterNSW announced⁶ that it had appointed a consortium of John Holland, MPC Group and TRILITY to design, construct, operate and maintain the Pipeline:

- the total cost of the design and construct contract was \$467 million (this contract includes some additional works that were undertaken for Essential Water and are not part of the Pipeline and the associated RAB)
- the total cost of the operating and maintenance contract was \$107.3 million over 20 years
- construction began in early 2018. In April 2019 the pipeline became operational.

4.1 The O&M contract

The request for the tender (RFT) was specifically designed to ensure that the project delivered substantive value for money for WaterNSW and for customers of the pipeline. This was achieved through a number of mechanisms built into the design of the RFT and the O&M contract as set out below.

4.2 Structure of the Joint Ventures and interaction between the O&M and D&C

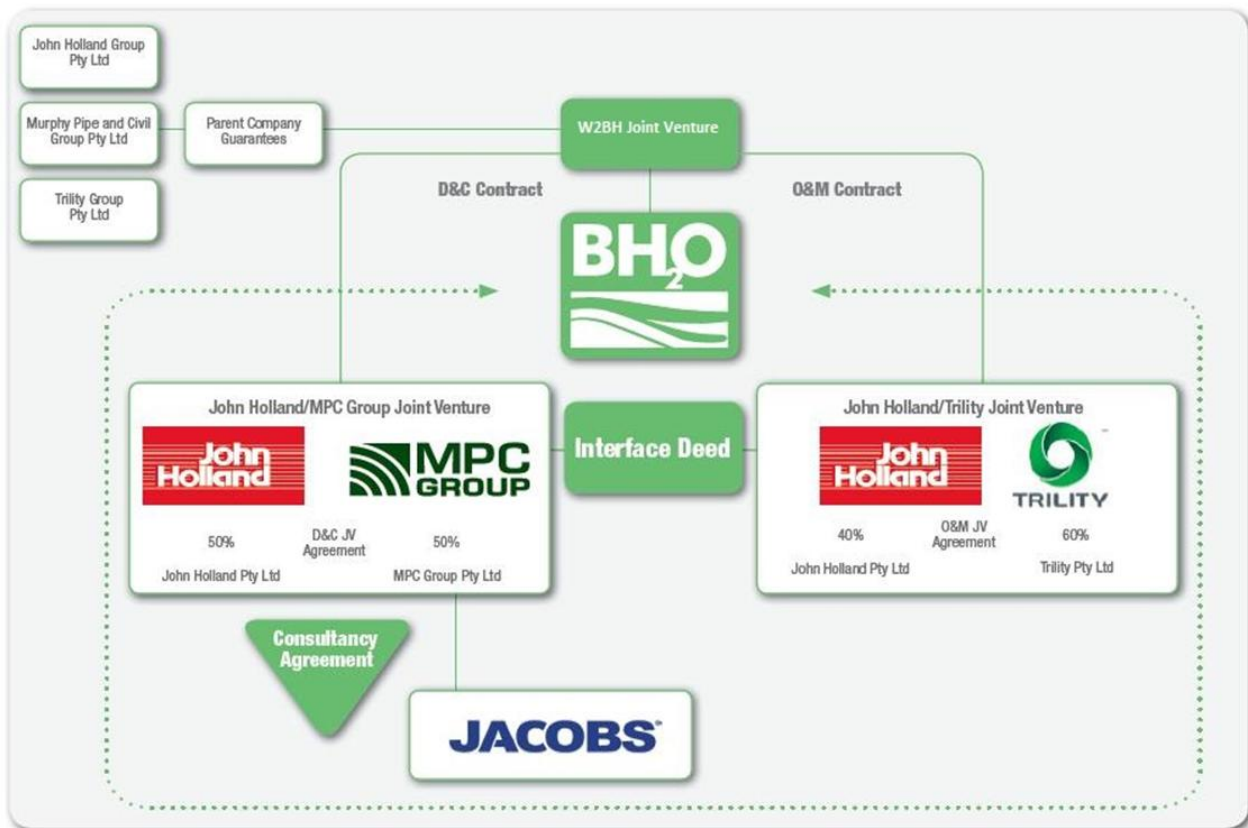
On 23 October 2017, the successful party, the John Holland Pty Ltd Joint Ventures with MPC Group Pty Ltd t/as John Holland MPC Group Joint Venture for the D&C Contract and Trility Pty Ltd trading as John Holland Trility Joint Venture for the O&M Contract (JHJV) was announced by WaterNSW as the successful tenderer.

The contract tender was designed to ensure that one party was responsible for both the design and construction (D&C) and O&M components to ensure lowest whole of life costs.

This is reflected in the structure adopted by the JHJV as the successful tenderer as set out in Figure 9 below.

⁶https://www.waternsw.com.au/_data/assets/pdf_file/0003/128532/Media-release-River-Murray-Broken-Hill-pipeline-contract-awarded-Oct-2017.pdf

Figure 9: Joint Venture corporate structure



Each of the individual members of the consortium brings specialised skills to the construction and ongoing operation and maintenance of the pipeline.

5. Services provided by the pipeline

5.1 Raw Water Supply Agreement with Essential Water

WaterNSW has entered into a Raw Water Supply Agreement with our primary customer, Essential Water (a division of Essential Energy). The agreement sets out the services and service standards to apply to WaterNSW's provision of transportation services to Essential Water. Relevant extracts of the agreement are provided in Attachment 6.

Under the agreement, WaterNSW is required to use its reasonable endeavours to:

- extract raw water from the River Murray and supply that water to the Broken Hill Delivery Point⁷
- operate and maintain the pipeline to the extent necessary for the provision of the supply of raw water to the Broken Hill Delivery Point.

Essential Water is required to give to WaterNSW a written weekly order notice setting out the volume of water it will take for each week, which must be below the Maximum Demand and above the Minimum Take (8ML in any 24-hour period) for that week. Maximum Demand is:

- Peak Daily Demand (37.4ML) in any 24-hour period
- Peak Week Demand (226.4ML) in any 7-day period
- Peak Month Demand (927.4ML) in any month
- Peak Season Demand (3,708ML) between 1 December and 31 March in any year, and
- Peak Annual Demand (7,586.6ML) in any year.⁸

Essential Water is required to take an amount that is not less than 10% under and not more than 10% over the full amount of the ordered water during the order week.⁹

WaterNSW has an obligation to monitor turbidity, pH, electrical conductivity, dissolved oxygen, Calcium Carbonate Precipitation Potential (CCPP), temperature and algae at specified test locations and frequencies and make the monitoring available to Essential Water.

⁷ The flanged connection located immediately downstream of the flow meter on the bulk water storage outlet.

⁸ These amounts are the same as the peak flows in the pipeline design.

⁹ To the extent that water necessary to satisfy the ordered water is available in the bulk water storage.

6. Proposed regulatory framework

Drawing on our customer engagement, WaterNSW is proposing a fit-for-purpose regulatory framework with minimal variation to the current framework – on the basis that the current framework is seen to be operating effectively in the circumstances – to apply to the pipeline for the 2026 Determination period. Our proposed regulatory framework consists of the following elements:

- **transportation prices** for Essential Water and offtake customers are subject to regulation, but WaterNSW and its customers can continue to enter into negotiated pricing agreements for other agreed services
- a **five-year Determination period** spanning from 1 July 2026 to 30 June 2031
- a **building block approach** to calculate WaterNSW notional revenue requirement for regulated transportation services
- continuation of the current **price cap** form of control and **current tariff structures** noting that the usage charges are predominately comprised of variable electricity costs to largely address volume risk
- **risk management arrangements** to ensure we are able to efficiently manage risks within our control over the 2026 Determination period. Our proposed framework includes the following cost true-ups and pass-throughs:
 - an electricity cost true-up for changes in benchmark costs in both the 2022 and 2026 Determination periods
 - a “true-up” of actual easement acquisition costs, subject to IPART’s review of the prudence of the expenditure.
 - continuation of IPART’s existing cost of debt true-up mechanism from the 2022 Determination period
 - the introduction of a well-established cost pass through framework drawing on the NEM framework to share risks with customers in an equitable manner for costs outside of our control.

6.1 Scope of services subject to regulation

The starting point for the proposal is to confirm the scope of services subject to regulation.

Our proposal is for IPART to regulate the:

maximum prices that WaterNSW can charge for water transportation services provided by the pipeline and allow negotiated agreements for other agreed services between WaterNSW and Essential Water and/or any offtake customers.¹⁰

This approach would allow individual offtake customers to “enter into an agreement with their utility to receive different levels of service / prices than the determination specifies”.¹¹ This is consistent with IPART’s approach in the 2022 Determination and other determinations, including IPART’s 2020 reviews of Sydney Water and Hunter Water’s prices.¹²

IPART made a decision to defer determining prices for shutdown, standby and restart charges in the 2022 Determination. IPART noted WaterNSW could levy these charges on Essential Water, negotiated on a commercial basis.¹³

WaterNSW proposes that these charges remain unregulated and formed based on commercial negotiation between WaterNSW and Essential Water. A decision to regulate shutdown, standby and restart charges would add unnecessarily to the regulatory burden. We confirm the Pipeline has not been put into shutdown, standby or restart mode over the current determination period.

This approach of regulating maximum prices for pipeline transportation services while ‘deferring regulation’ by allowing for negotiated agreements for other services ensures offtake customers face efficient prices for provision of these other services while enabling WaterNSW to be responsive to our customer needs, as required.

We would ‘ring-fence’ any costs and revenues from these negotiated agreements from the transportation services regulated through the 2026 Determination.

6.2 Length of 2026 Determination period

WaterNSW is proposing a determination period of **five years**. A five-year period from 1 July 2026 to 30 June 2031 appropriately balances the uncertainty of forecasts and the regulatory burden of determinations.

At the time of the 2022 Determination, IPART noted there was uncertainty around the operation of the pipeline, including demand and the resulting pumping profile. Six years of operation since the pipeline’s commissioning ensures we have a good understanding of the pipeline’s operating profile and the associated costs.

As discussed above, the six years practical experience has provided critical insights that we have relied on when analysing past performance and making our forward proposal, including, but not limited to:

¹⁰ E.g. Negotiated Service Agreements for new customers. Shutdown, standby or restart services between WaterNSW and Essential Water and other non-Determination services.

¹¹ IPART, *Lifting Performance in the Water Sector: Discussion Paper -Special review*, May 2021, p12.

¹² IPART, *Review of prices for Sydney Water from 1 July 2020, Final Report*, June 2020, p151; IPART, *Review of prices for Hunter Water from 1 July 2020, Final Report*, June 2020, p34.

¹³ IPART, *WaterNSW Murray River to Broken Hill Pipeline, Final Report*, May 2019, p92.

- pumping volumes and pumping profiles
- energy profiles, such as half hourly data, peak demand and fixed energy use
- renewals (maintenance) expenditure
- replacement (capital) expenditure
- customer operational requirements and customer outcomes.

While our actual experiences are instructive in setting our forward proposal, we are comforted that this information has resulted in refinements to previous estimates and modelled data, rather than suggesting significant or seismic changes.

The combination of our actual experience and its reasonable correlation to early benchmark estimates reduces the uncertainty associated with making forecasts over the 2026 Determination period, meaning a longer determination period is appropriate.

A five-year 2026 Determination period is a proportionate response to managing this regulatory burden. Regulatory determinations involve considerable administrative and managerial effort for regulated businesses, customers, IPART and other key stakeholders. A five-year determination period enables all interested parties to efficiently allocate valuable resources.

WaterNSW also notes that a five-year determination period would provide alignment with the Essential Water determination process. This continued alignment would provide efficiencies in the related regulatory processes, ensure alignment in customer engagement and ensure consistency in pricing and key assumptions between the two service providers to the Broken Hill region.

6.3 Building block approach

We support IPART's building block approach to establishing revenue requirements and prices for regulated services. 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:

- **operating expenditure**, which represents an estimate of the efficient level of WaterNSW's forecast operating, maintenance and administration costs related to the pipeline
- a **return on the assets** WaterNSW uses to provide transportation services. This amount represents an assessment of the opportunity cost of the capital invested in the pipeline and ensures WaterNSW can continue to make efficient capital investments in the future. To calculate this amount, IPART decides on the efficient and prudent levels of WaterNSW's past and forecast pipeline capital expenditure, the value of the pipeline regulatory asset base (RAB), and the appropriate weighted average cost of capital (WACC)
- a **return of those** assets (regulatory depreciation). This allowance recognises that through the provision of services to customers, the pipeline infrastructure will deteriorate over time, and therefore allows the cost of the RAB to be recovered throughout its expected life. To calculate this allowance, IPART decides on the appropriate asset lives and depreciation method

- an **allowance for meeting tax obligations**, as a separate cost building block
- an **allowance for working capital**, which represents the holding cost of net current assets.

6.4 Setting maximum prices

There are several forms of price control that can be used to determine maximum prices for regulated businesses. These include price caps, revenue caps and hybrids of these two approaches.

We propose that a price cap should continue as the form of price control for the 2026 Determination period. We consider that this approach continues to be fit-for-purpose as it provides certainty and stability for our customers, while preserving scope for negotiated pricing agreements for additional services requested by our customers.

We consider that continuation of capped cost reflective tariffs (i.e. fixed and variable charges) for pipeline transportation services is able to adequately manage demand and revenue risk. We note that the proportion of costs and revenues that are fixed or variable are broadly in line and therefore do not require review.

7. 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 (**Capital expenditure**)
- our proposed weighted average cost of capital – a key input to our proposed revenue requirement and customer prices (**Rate of return**).

7.1 Management's role in delivering outcomes

Our WNSWI Board, WaterNSW Board, 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 twelve months.

The WNSWI Board played an active role during the proposal development and challenge process, through regular monthly meetings that provided detailed updates on all key matters for decision. It challenged Management's proposals from inception through the customer and community engagement process.

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

- Keep our controllable operating expenditure as low as possible while supporting growing regulatory obligations and maintenance needs.
- 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 efficiency across WaterNSW, which has flowed through to customers of the Broken Hill Pipeline through the application of our cost allocation methodology.
- Propose a cumulative efficiency target of 1% of SPV support operating expenditures 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. The annual efficiency target results in combined savings of \$334,000 (\$2025-26) over the upcoming five-year determination period as set out in section 8.1.

- 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.
- Over the 2026 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 pricing trajectory based on feedback from Essential Water that suggested annual adjustments better align to the way costs are incurred compared to a one-off increase (followed by no real change in prices).

Ahead of the 2025 price determination for our bulk water services, 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". "

This finding, while undertaken as part of our bulk water determinations, fully supports the commitment of the Board and Management to managing risks (and the impact on costs) during the 2026 Determination period that is equally applicable for the pipeline.

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.

7.2 Managing risk

7.2.1 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 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 as illustrated in Table 5.

Table 5: 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

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. IPART’s Water Regulation Handbook outlines six principles that need to be demonstrated in proposing a cost pass-through.
- **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 takes 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 10: Proposed risk management and allocation framework

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 ➔	Staff, 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/legislative obligations) 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 under price cap	Shared
	Insurance cap/credit/coverage event regulatory & service standards/tax changes	Cost	General cost pass through	Shared
	Movements in annual energy prices	Cost	Electricity cost true-up	Shared
	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

The framework groups the identified action for each risk (treat, accept or share), whether it is systematic or business-specific and how we propose to be compensated for managing or bearing the risk, or the mechanism for sharing the risk. We also summarise whether the risk affects our costs and/or revenues and whether it is allocated to WaterNSW, our customers or is shared. Our approach to risk management for the 2026 Determination framework is discussed further in Attachment 12.

In summary, after analysing the key risks and applying these principles, we are proposing the introduction of three key risk management mechanisms that we consider meets these regulatory principles. These are mechanisms to update access and usage prices that consist of:

- Inclusion of an electricity cost true-up to manage movements in the benchmark price of electricity as originally proposed by WaterNSW in our 2021 pricing proposal and as approved in principle by IPART at the 2022 Determination. This pricing proposal outlines our proposed approach to implement the true-up for both the current and upcoming regulatory periods.
- A true-up for the costs of acquiring easements or access to infrastructure on Crown land.
- During the 2026 Determination period we propose several cost pass throughs to manage movements in the efficient costs of specified events that could occur and are beyond the reasonable control of WaterNSW during the 2026 Determination period.

Figure 11 below outlines how our proposed risk management and allocation framework for the 2026 Determination has been applied and provides our proposed cost pass-throughs, true-ups and reopeners.

Figure 11: Proposed cost pass throughs, true-ups and reopeners

Category	Description	Event
Cost pass throughs	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 / Easement acquisition costs
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.	

7.2.2 Cost pass-throughs

Cost pass-through mechanisms are a common part of incentive based regulatory frameworks. They are used to manage the risk associated with external events that occur within a determination period 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 major changes to regulatory obligations or natural disasters.

Cost pass-throughs provide a mechanism to allow regulators to review the efficient costs associated with events (after they have occurred) that could not be accurately forecast as part of the revenue proposal and allow regulated businesses to recover the determined efficient costs to ensure that prices continue to reflect efficient costs.

The costs associated with pass through events are those that would have been included in the 2026 Determination had WaterNSW and IPART known with perfect foresight the scope, timing and efficient costs of the pass-through event in advance. For the majority of pass-through events, at least one element of the scope, timing or efficient costs of the event are unlikely to be known over the 2026 Determination period.

Therefore, WaterNSW proposes a targeted cost pass through framework to address the risk of defined exogenous events occurring during the 2026 Determination period that may change the efficient costs of providing transportation services (i.e. such that efficient costs differ from those assumed by IPART in setting prices in the 2026 Determination).

Our approach to identifying general cost pass-through events has involved:

- identifying potential changes to our operating environment and regulatory and legislative framework that may create risk over the 2026 Determination period
- assessing the certainty, likelihood and consequence of each risk to determine whether risks can be accounted for in expenditure forecasts or in the case of low consequence risks, absorbed internally
- reviewing the available risk management measures that may be used to mitigate or prevent risks, including operating expenditure, capital expenditure, insurance, self-insurance, WACC and specific pass-through events.

IPART has established cost pass-through principles in place and have discretion under the IPART Act to define a cost pass through mechanism.

As set out in Attachment 12, we propose a pass-through mechanism to efficiently manage key risks that involves defining seven general pass through events: a regulatory change even, a service standard event, a tax change event, an insurance coverage event (noting that this addresses 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.

WaterNSW proposes a trigger mechanism for general cost pass-throughs of 5% of the net revenue requirement for the year in which the event occurs or \$1 million with the threshold defined on a per event basis, which recognises the scale and scope of operations of the pipeline.

Our approach to general pass-through events draws on the established approach for managing risks that applies to electricity networks operating in the National Electricity Market.

7.2.3 True-ups

WaterNSW proposes two true-ups as discussed in the following sections:

- Electricity cost true-up
- Easement acquisition cost true-up.

7.2.3.1 Electricity cost true-up for the 2022 Determination period

The cost of electricity is highly uncertain given that key components of electricity prices are determined by dynamic market forces, or independent regulators and/or market authorities. This represents a risk which is not practically controllable by WaterNSW.

We have considered this risk holistically, and compared to alternative options we consider an electricity cost true-up to be the most efficient means of managing this forecast price risk. For instance, we do not believe that it is in a customer's best interest to set an energy cost allowance that includes a positive adjustment or uncertainty premium to the price for potential unforeseeable increases in market prices and/or network charges. Nor do we believe it is in a customer's best interest to provide WaterNSW with additional compensation (outside the WACC) for bearing the risk of annual movements in wholesale and/or network prices.

Changes in electricity costs are designed to ensure WaterNSW is incentivised to take accountability for events within our control, while not being exposed to risks beyond our control - particularly where it may not be efficient for WaterNSW to manage this risk.

To manage significant uncertainty around energy prices, WaterNSW proposed in its 2021 pricing proposal that the benchmark energy allowance be subject to an end-of-period true-up for movements in the benchmark price/allowance to reflect movements in network and wholesale costs:

"...we are proposing to share with customers the risks associated with movements in energy costs that are beyond WaterNSW's reasonable control through an end of period true-up

*mechanism of movements in network and wholesale components of the benchmark electricity price.*¹⁴

The proposal was underpinned by the following principles:

- retain incentives to procure and use electricity as efficiently as possible
- capture material movements in costs (increases and decreases) to ensure prices reflect costs that would be incurred by a prudent and efficient benchmark entity in providing these services over the 2022 Determination period
- apply simply and mechanically.

For the draft 2022 Determination, IPART agreed with the support of their consultants (The Centre for International Economics (CIE)) – in principle – to apply an end-of-period true-up. This true-up would adjust the revenue requirement to reflect differences between wholesale and network components of benchmark energy prices that were forecast for the 2022 Determination and wholesale and network components that occurred during the regulatory period. That is, the differences between forecast and actual outcomes for these benchmark energy costs would be passed-through over the next (i.e. 2026) determination period.

WaterNSW noted that a clear methodology was required from IPART to identify risks that needed to be managed. CIE agreed with WaterNSW's draft decision response that it would be better able to manage the risk associated with uncertain energy costs if greater clarity was provided as to IPART's intentions. In its 2022 Final Report, IPART invited WaterNSW to provide further justification for its proposed energy true-up mechanism. IPART indicated that it was:

*"open to working with WaterNSW prior to its next submission to develop a true-up mechanism that appropriately balances energy cost risk between WaterNSW and its customers, with the intent that this mechanism would apply to energy costs over the 2022 Determination period."*¹⁵

Critical to this was for WaterNSW to demonstrate this mechanism would "reflect the prudent behaviour of a benchmark efficient entity, and the extent to which WaterNSW will be incentivised to efficiently manage its actual energy costs".¹⁶

WaterNSW engaged Frontier Economics to provide expert advice on meeting IPART's criteria for the electricity cost true-up. Our detailed workings for the proposed true-up are provided in Attachment 10 and are summarised below.

Our approach includes the following six steps:

- Step 1:** Determine relevant time period.
- Step 2:** Determine which costs or other assumptions are subject to true-up.
- Step 3:** Collate updated assumptions, including movements in the relevant cost items.
- Step 4:** Calculate cost over/under-recovery for each year of period.

¹⁴ WaterNSW, Pricing Proposal to the Independent Pricing and Regulatory Tribunal: Regulated prices for the Wentworth to Broken Hill Pipeline, 30 June 2021, p.122.

¹⁵ IPART, *Murray River to Broken Hill Pipeline Final Technical Report*, November 2022, p.40.

¹⁶ IPART, *Murray River to Broken Hill Pipeline Final Technical Report*, November 2022, p.39.

Step 5: Calculate total cost over/under-recovery over period, including the time value of money, and consider any materiality threshold.

Step 6: Calculate revenue increment/ decrement to be recovered over 2026 Determination period.

While each of the above steps is discussed in detail in Attachment 9 *Frontier Economics report on electricity costs*, the key threshold decision is to determine which costs or other assumptions are subject to true-up.

Determine which costs or other assumptions are subject to true-up (Step 2)

We identified 3 options for elements to be included in the true-up and propose that **wholesale, network and environmental** costs be included. These costs accounted for 94% of total energy costs incurred over the 4-year Determination period. Using all costs (e.g. including ancillary and market fees, retail operating costs, etc.) may result in additional administration costs that outweigh the impact on the likely under- or under-recovery. Alternatively, environmental cost variances have the potential to be material over the period and can be calculated with minimal additional effort.

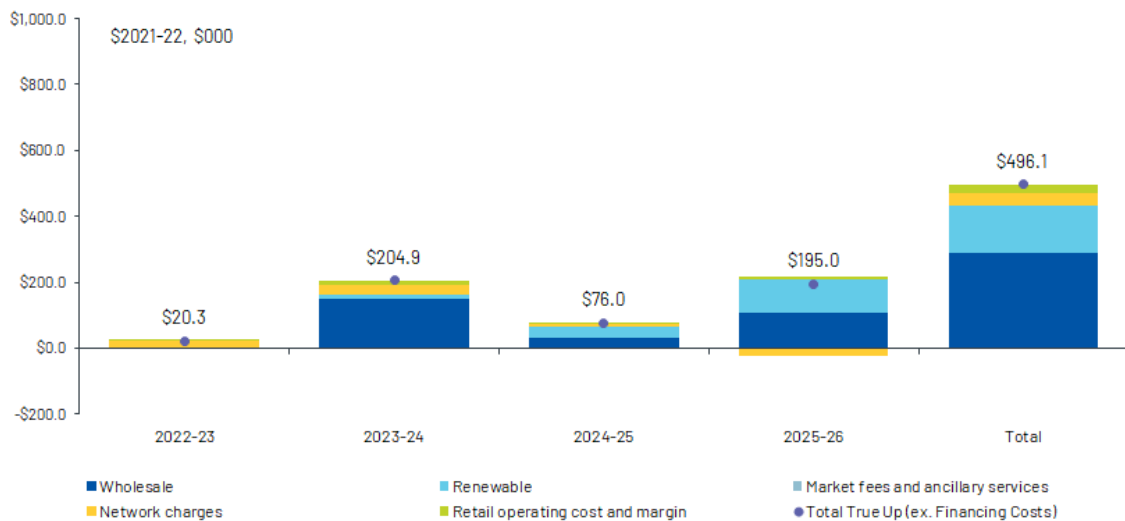
This approach departs somewhat from the 2022 Determination, whereby the true-up was to apply to wholesale and network costs only. However, given the level of environmental costs cannot be controlled by WaterNSW and since these costs are determined by the market and regulators/independent authorities, our proposed approach aligns with the cost-pass through principles applied by IPART in their 2022 final decision.

We also consider that these costs should be included as part of the true-up mechanism because of their relative materiality. Given that environmental costs are a material proportion of total costs (9% of total energy costs over the 2022 Determination period) and prices for environmental certificates are volatile, the impact on efficient costs of changes in the prices of environmental certificates could be as material as the impact of changes in wholesale or network prices.

Proposed true-up amount for 2026 Determination

Based on the approach described above and in Attachment 9, the total true-up amount over 2022-23 to 2025-26 has been calculated by WaterNSW as a positive adjustment (over-recovery) of \$496,110 (in \$2021-22) compared to the benchmark price allowance Figure 12. The major components of this over-recovery are changes in benchmark wholesale electricity costs and environmental costs compared to the assumptions in the 2022 Determination.

Figure 12: WaterNSW electricity under-over recovery year-on-year and total by cost component (\$000s, \$2021-22)



The true-up adjustments, as shown above, are escalated to \$571,810 (in \$2025-26) and are to be returned to customers over the proposed five-year period. Assuming a placeholder WACC, the net present value of these adjustments is **\$560,976 (in \$2025-26)** or \$128,083 per annum returned to customers (in \$2025-26).

Electricity cost true-up mechanism for variations in the 2026 Determination period

WaterNSW proposes to adopt the same electricity cost true-up as outlined in the previous section for any variances between forecast and actual benchmark costs over the 2026-27 to 2030-31 determination period for adjustment to the revenue requirement in the subsequent (i.e. 2031) determination period.

7.2.3.2 Easement and access right acquisition cost true-up

WaterNSW attributes a large proportion of its capital cost to land acquisitions required to place infrastructure such as pump stations, bulk water storage and access to place pipe on private and Crown land.

As discussed in Section 9.2.1.2, while the investment in easements over private land is largely complete, easements and other access rights are also required over Crown land to ensure appropriate access conditions to the remainder of our infrastructure. WaterNSW will need to secure access to 17 additional parcels of Crown land. While negotiations are ongoing, WaterNSW has forecast easement acquisition costs over Crown land during the 2026 Determination period.

We propose a “true-up” of actual easement acquisition costs to be included in the subsequent determination period, subject to IPART’s review of the prudence of the expenditure.

8. Operating Expenditure

Proposed operating expenditure is **\$29.8 million** (\$2025-26) over the five-year determination period, averaging **\$6 million** (\$2025-26) per year. This represents 22% of the proposed NRR.¹⁷

Our Base-Trend-Step (BTS) operating expenditure assessment is summarised provided below. A detailed assessment of our proposed BTS operating expenditure is provided in Attachment 8.

Table 6: 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.

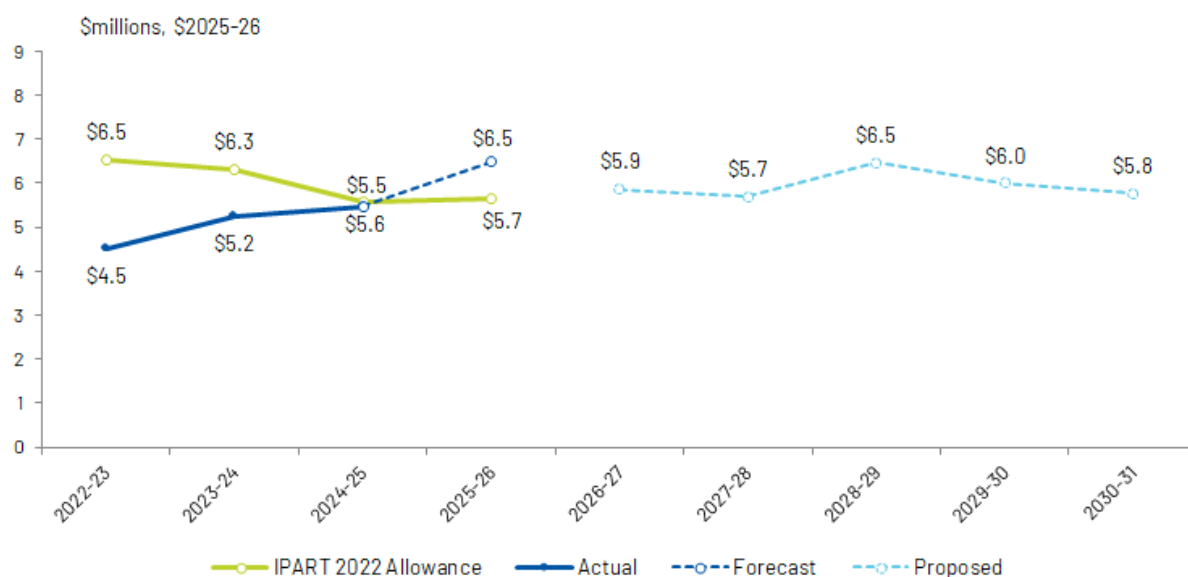
¹⁷ Excluding the cost of debt true up

Our proposed operating expenditure of **\$29.8 million** over the five years of the 2026 Determination period, is comprised of the following BTS costs (\$000s, \$2025-26):

- Base year costs (after adjustments) of \$16.2 million
- Trend changes of \$0.2 million
- Step changes of \$3.4 million).

The following figure compares allowed, actual / forecast and proposed operating expenditures for the current and upcoming regulatory periods.

Figure 13: Allowed, actual / forecast and proposed operating expenditure (\$millions, \$2025-26)



* The current determination of offtake OPEX has been adjusted to reflect the higher usage forecast for comparison purposes.

As illustrated above, actual / forecast operating expenditure over the four years of the 2022 Determination period for Essential Water and offtake customers combined is **\$5.4 million** (\$2025-26) per year, which is \$591,000, or **10% below** the average operating expenditure allowance over the period.

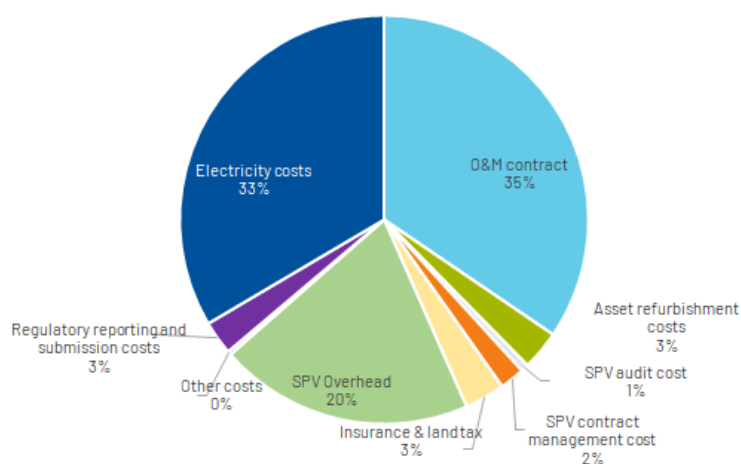
Actual operating expenditure is below the regulatory allowance over the current determination period primarily driven by electricity costs that were **\$842,000 (32%) lower** per year than provided for in the determination. Other reductions in actual expenditure compared to the regulatory allowance include O&M costs (-\$40,000 per year), SPV contract management costs (-\$80,000 per year), insurance and land tax (-\$51,000 per year) and audit costs (-\$2,000 per year). These reductions were partially offset by higher SPV costs (\$232,000 per year), regulatory submission and reporting costs (\$135,000 per year), other costs for tree care, general materials, travel, property (\$39,000 per year) and asset refurbishment costs (\$19,000 per year).

The proposed operating expenditure over the 2026 Determination period is **\$6.0 million per year**, which is \$57,000 or **1% lower** than IPART's average allowance over the 2022 Determination period and is based on:

- **operating and maintenance activities** of \$2.1 million per year as part of our contractual arrangements with the John Holland Trility Group Joint Venture
- **electricity costs** of \$2.0 million per year
- **asset refurbishment costs** of \$0.2 million per annum
- **Special Purpose Vehicle (SPV) support costs** of \$1.2 million per annum based on the application of our existing CAM
- **contract management and other costs** relating to audits, insurance, administration, regulatory submission preparation and land tax of \$0.5 million per annum.

Operating expenditure for the pipeline is predominately comprised of fixed operation and maintenance costs incurred by the pipeline contract (35%), the cost of electricity for the pumps to propel the water up the pipeline (33%), SPV overhead costs (20%) and contract management, audit, insurance, land tax and other minor charges (12%). The proportion of the costs to total operating expenditure for the pipeline is illustrated in the figure below.

Figure 14: Proportion of proposed operating expenditure by activity (%)



The cost of electricity is the second largest operating activity (behind O&M costs), which is forecast at approximately **\$2.0 million per annum** or 24% lower than the current regulatory allowance. This reflects a significant reduction in wholesale costs, which is partially offset by higher network charges. WaterNSW engaged Frontier Economics to calculate proposed electricity charges. The Frontier Economics report is provided as Attachment 9.

WaterNSW's forecast of operating expenditure requirements for the 2026 Determination period is shown in Table 7 below.

Table 7: Operating expenditure forecast for the 2026 Determination period (\$000s, \$2025-26)

Essential Water and Offtakes (\$000, \$2025-26)	FY23-26 Average Allowance	2026-27	2027-28	2028-29	2029-30	2030-31	Total FY27-31	Avg	Avg Variance \$	Avg Variance %
O&M activities	\$1,922	\$2,227	\$2,004	\$2,156	\$1,946	\$1,955	\$10,288	\$2,058	\$136	7%
Asset refurbishment (opex)	\$83	\$82	\$184	\$617	\$4	\$46	\$934	\$187	\$103	124%
Special purpose vehicle (SPV) support costs	\$778	\$1,090	\$1,110	\$1,272	\$1,375	\$1,160	\$6,007	\$1,201	\$423	54%
Other operating costs***	\$610	\$462	\$413	\$421	\$670	\$636	\$2,603	\$521	-\$89	-15%
Electricity costs - Essential water*	\$2,623	\$2,001	\$1,987	\$2,004	\$2,002	\$1,976	\$9,971	\$1,994	-\$629	-24%
Electricity costs - Offtakes**	\$4	\$3	\$3	\$3	\$3	\$3	\$13	\$3	-\$1	-33%
Total Operating expenditure	\$6,020	\$5,866	\$5,701	\$6,473	\$6,000	\$5,776	\$29,816	\$5,963	-\$57	-1%

* Electricity payments based on assumed average usage of 6,255 MLs provided by Essential Water, plus average evaporative losses of 233 MLs, and 8.5 MLs of average usage for paying offtake customers, using the electricity price inputs provided by Frontier Economics.

** Allowance re-calculated based on proposal volumes for Offtake customers for comparison.

*** Includes audit, insurance, land tax, salary and wage, travel, regulatory reporting and submission costs and other minor expenses.

**** Totals may not add due to rounding.

8.1 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 endorsed by the WaterNSW Infrastructure Board. It 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 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) proposed for the pipeline over the upcoming five-year determination period as set out in the table below.

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.

Table 8: Efficiencies built into our proposal (\$000s, \$2025-26)

	2025-26	2026-27	2027-28	2028-29	2029-30	2029-31	Average
Efficiency	-\$17	-\$33	-\$48	-\$65	-\$85	-\$103	-\$67

Our pricing proposal reflects significant efficiencies built into our reducing revenue forecasts. These include:

- operating and maintenance costs derived from a well-designed competitive procurement process that was endorsed by IPART's expenditure consultants, Synergies in the 2019 Final Determination
- efficient energy costs calculated using:
 - an efficient energy profile based on half hourly data
 - benchmark energy price including forecast wholesale energy costs
 - AER-approved rates for network charges
- economies of scale and overhead costs based on our cost allocation methodology, which is aligned with our actual expenditure, as reviewed by IPART during the 2021 Rural Valleys and WAMC Determinations
- costs increases are limited to mandatory and uncontrollable costs such as insurance and land tax
- minimal capital expenditure on the pipeline reflecting the asset replacement schedule competitively procured from the market.

8.2 Accounting policies

Our proposed expenditure profiles have been prepared in accordance with:

- applicable Australian Accounting Standards (which include Australian Accounting Interpretations)
- financial reporting Directions mandated by the NSW Treasurer, including Treasury Circulars and Treasury Policy and Guidelines Papers
- the requirements the *Government Sector Finance Act 2018* and *Government Sector Finance Regulation 2024*(where applicable) and the *State Owned Corporations Act 1989*.

We have applied our internal accounting policies to identify the forecast expenditures that are related to capital expenditure and those expenditures that should be expensed.

Our capitalisation policy, as updated from time to time, sets out the criteria to determine whether an asset is created and the materiality thresholds to assess whether an asset should be capitalised or expensed.

Our capitalisation policy complies with the NSW Treasury Policy TPP06-6 "Capitalisation of Expenditure on Property, Plant and Equipment", which is consistent with relevant Accounting Standards including AASB 116 Property, Plant and Equipment. AASB 116 provides guidance on the costs (including corporate costs) which can be capitalised as part of Property, Plant and Equipment.

8.3 Operations and maintenance

The largest single component of operating expenditure is a fixed (monthly) rate charge to the pipeline contractor under the Operations and Maintenance (O&M) contract to perform all the operations and maintenance of the pipeline over the 20-year term. This cost includes staffing costs at the pipeline by the John Holland Joint Venture (JHJV). The current determination and forecast O&M costs are set out below on a per annum basis.

Table 9: Operating and maintenance expenditure (\$000s, \$2025-26)

\$000	Avg Current DET	2026-27	2027-28	2028-29	2029-30	2030-31
Operating and maintenance	\$1,992	\$2,227	\$2,004	\$2,156	\$1,946	\$1,955

The JHJV assumes responsibility for the operation and maintenance of the pipeline in accordance with the O&M contract. The responsibilities include:

- developing, implementing and maintaining a Water Quality Management Plan, such as temperature, PH, and turbidity, an Incident Management Plan in line with WaterNSW's requirements, and management plans covering project operations and maintenance requirements for health, safety, environment and quality
- undertaking monthly reporting requirements providing sufficient detail for WaterNSW to assess performance and compliance with the requirements of the contract. The reporting requirements are extensive and include quantity, quality, volumes, energy usage, hydraulic performance, asset management, incident reporting, KPI reporting, fuel usage

- managing communications and day-to-day operational issues, including direct communication with Essential Water, and billing WaterNSW in accordance with the O&M contract
- undertaking asset management and maintenance, developing, implementing and maintaining an asset management system and asset data requirements, planned/routine maintenance, reactive and unplanned maintenance and other general maintenance services.

Meeting WaterNSW's operational performance requirements includes:

- ensuring specified system availability and meeting return to service periods
- meeting operational demand forecasts provided by Essential Water
- meeting water quality thresholds at the specified interfaces
- meeting defined safety and environmental performance indicators
- providing continuous monitoring of system performance efficiency and ongoing corrective action if performance does not meet requirements.
- Undertaking continuous monitoring of system leakage or losses and ongoing corrective action if performance does not meet requirements.

Maintaining the water supply system includes:

- regular maintenance and checks to minimise rates of equipment/component failures particularly unplanned failures that will impact on the ongoing system availability
- scheduled replacement of equipment
- reactive maintenance and replacement within specified return to service periods
- regular checks on all equipment / components to ensure ongoing system availability
- regular auditing of maintenance systems and processes to ensure maintenance
- activities carried out in accordance with an accredited maintenance management system
- recording of maintenance activities and associated costs to enable WaterNSW to demonstrate prudent and efficient maintenance management practices to relevant regulators
- arranging for an annual independent audit in conjunction with WaterNSW, which must cover the following matters: financial payments, water volumes, water quality, health and safety, maintenance, asset management and other matters as required under the O&M contract. This cost is treated as a separate cost item identified as the 'SPV audit'.

8.4 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.

Over the O&M contract term, the contractor will be paid based on the lower of actual asset refurbishment and replacement costs incurred and the cumulative asset refurbishment and replacement cost profile bid by the contractor in its tender (adjusted for indexation). Overall, this mechanism ensures that the contractor is held accountable to their bid price.

At the start of the 2022 Determination, the pipeline was only three years old and had little need for asset refurbishment or replacement in the early years. This was reflected by the minimal costs proposed by WaterNSW in 2021 and accepted by IPART in the 2022 Determination of approximately \$394,000.

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).

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 expenditure (see section 9.2).

WaterNSW considers that this treatment is in line with accounting standards and better reflects the size and scale of the investments and the potential pricing impacts for customers compared with a continuation of the approach of expensing all minor expenditure.

WaterNSW is planning both minor asset refurbishment and minor asset replacement works for the pipeline across the next determination period. Asset refurbishment costs are outlined in the following table and asset replacement costs are discussed in section 9.

Table 10: Asset refurbishment costs (\$000s, \$2025-26)

\$000	Avg Current DET	2026-27	2027-28	2028-29	2029-30	2030-31
Asset refurbishment costs (opex)	\$83	\$82	\$184	\$617	\$4	\$46

As illustrated in Table 10: 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
- refurbishment of other minor assets including exterior coating, refurbishment of pipeline appurtenances as well as control systems and electrical systems.

Our proposed price path over five years implicitly smooths the annual variations in costs over the five-year determination period to provide a more consistent price path.

8.5 Electricity costs

The costs of energy required to pump and transport water via the pipeline form a key element of the notional revenue requirement used to derive the prices levied on Essential Water and other customers of the pipeline. In making its 2022 Determination, IPART decided to:

- **set a forecast energy cost allowance** using:
 - observed operational data to determine the energy required to pump water
 - an IPART model that sought to optimise the timing of using energy to pump water to minimise wholesale energy costs
 - forecasts of the key components associated with the cost of purchasing energy including benchmark wholesale energy costs, renewable energy costs, network charges and Australian Energy Market Operator (AEMO) charges
- **develop a true-up mechanism** in collaboration with WaterNSW that accounts for the key risks in forecast energy costs and appropriately balances energy cost risk between WaterNSW and its customers.

Consistent with IPART's 3Cs framework, this 2026 Pricing Proposal includes:

- an estimate of the costs of energy required to pump and transport water via the pipeline for the 2026-2031 period
- the development of a true-up mechanism to estimate the over/under-recovery relative to the energy cost allowances in the 2022 Determination ('looking back'), and the true-up amount to be applied in the 2026 Determination to ensure customers and WaterNSW are no 'worse off'
- a proposed true-up mechanism that can be applied in the next Determination to account for over/under-recovery of energy costs relative to the energy cost allowances in the 2026 Determination.

WaterNSW has engaged Frontier Economics to calculate the benchmark cost of electricity for the 2026 Determination period. The Frontier Economics report is provided as Attachment 9. Details on our proposed approach to the benchmark cost of electricity and the electricity true-up are summarised below.

The cost of electricity represents \$2.0 million per year, or around 33% of our total proposed operating expenditure and is the sole element of the variable cost of providing transportation services for charging purposes.

Electricity costs are incurred due to the energy needs of the three pump stations (one of which is illustrated in Figure 15 below) which operate to transport water up the pipeline.

Figure 15: WaterNSW pumping station (WPS – Wentworth Pumping Station)



Consistent with IPART's 2022 Determination, WaterNSW proposes to maintain the approach of recovering the cost of electricity from user charges in the following manner:

- fixed electricity "access" costs will be reflected in the access charge
- variable electricity "usage" charges, which vary depending on the amount of water ordered or delivered, will be reflected in the usage charge.

The cost of electricity is highly uncertain given that key components of electricity prices are determined by dynamic market forces, or independent regulators and/or market authorities.

Consistent with our 2021 pricing proposal and IPART's 2022 Determination, WaterNSW also proposes the introduction of an electricity cost true-up for the current 2022 Determination period. Based on the benchmark profile used in the current determination and updating for benchmark prices, WaterNSW proposes an **electricity cost true-up amount of -\$0.6 million**.

The introduction of the proposed true-up amount, if approved by IPART, would result in Essential Water paying lower prices than would otherwise be the case had the true-up not been implemented. This highlights the benefit of the true-up that reflects that the benchmark prices are outside of WaterNSW's control and that customers only face the actual (efficient) costs in their prices.

WaterNSW's proposed current period true-up adjustments for movements in both the benchmark electricity price over the 2022 (current) determination period and the 2026 upcoming determination are detailed in the Frontier Economics report on electricity costs provided as Attachment 9 and the electricity cost true-up calculation provided as Attachment 10.

For the purpose of calculating the notional revenue requirement for the upcoming 5-year regulatory period, we have included our proposed electricity cost true-up amount as a (negative) revenue adjustment.

8.5.1 Estimating pumping volumes

WaterNSW has provided a forecast of pumping volumes for the Wentworth to Broken Hill Pipeline for each year of the regulatory period. This forecast is based on the assumption of normal weather conditions occurring each year and has been sourced from Essential Water. WaterNSW has reviewed the assumptions and consider that the Essential Water forecast, when including the impact of transportation losses, is reasonable for the purposes of setting prices for the upcoming regulatory period.

Our proposed pumping forecast is provided in Table 11: below.

Table 11: Forecast of volume of water to be pumped (ML)

	2026-27	2027-28	2028-29	2029-30	2030-31
Volume of water pumped	6,495	6,497	6,498	6,500	6,502

* Based on Essential Water's forecast volumes extracted of 6,255ML per annum, plus losses at the bulk supply facility of average 233ML per annum, plus usage by offtake customers of 10.7ML per annum = 6,499ML per annum of water pumped

The cost of electricity is dependent on the volumes of water pumped to meet Essential Water's actual demand. We have based our electricity cost forecasts on the water volumes forecast by Essential Water at the bulk water extraction point. To the extent that actual volumes differ from forecast volumes, there will be a cost variation. We have proposed the continuation of the current pricing formula that adjusts for the costs of electricity variations through the usage charge and an electricity true-up to address any such variation in a manner that balances risk equitably between WaterNSW and our customers.

8.5.2 Energy use profile

To estimate the time of day that water pumping will occur to meet our forecasts of annual water pumping, we make use of historical data on electricity used for pumping. This half-hourly electricity data provides a detailed picture of the time of day that pumping has occurred. This is important as prices differ if electricity consumption is at peak, shoulder or off-peak times during the day (amongst other factors, including network demand).

WaterNSW has provided half-hourly electricity used for water pumping that is based on electricity meter reads. This half-hourly data was provided for the full financial years for each year from 2018-19 to 2023-24, as well as for part of 2024-25.

To estimate pumping profiles for 2026-27 to 2030-31, Frontier Economics used the half-hourly electricity use for 2023-24 as a starting point. 2023-24 is the most recent full financial year of data available, and also had a total volume of water pumped – 5,826.7 ML – that is reasonably well-aligned with the forecast volumes of water pumped (as seen in Table 11:).

Taking the half-hourly electricity use for 2023-24, for each day in 2023-24, Frontier Economics has calculated the amount of electricity use that occurred in peak periods, shoulder periods and off-peak periods on that day. We assume that these same proportions will apply for each of the forecast years from 2026-27 to 2030-31.

The derivation of the daily pumping profile is provided in Attachment 9.

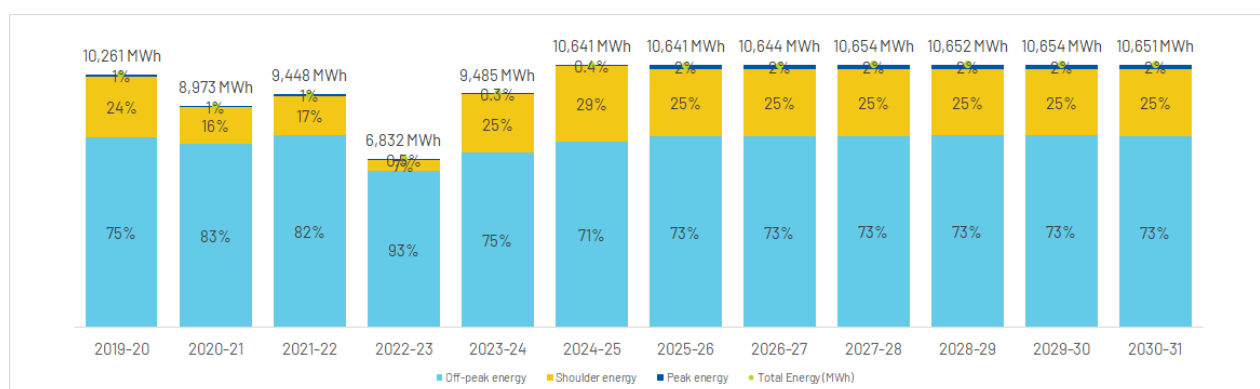
Electricity use is estimated based on the estimated water pumping profiles, and applying a pumping energy requirement of 1.6391 MWh/ML, the factor used in IPART's previous determination.

Multiplying the estimate of pumping in peak, shoulder and off-peak periods in each day of each year of the forecast period by this factor of 1.6391 MWh/ML provides an estimate of electricity use in MWh in peak, shoulder and off-peak periods in each day of each year of the forecast period.

These estimates of electricity use can then be summed to determine total peak, shoulder and off-peak electricity use for each year of the forecast period and also used to determine peak demand in peak, shoulder and off-peak periods for each year of the forecast period.

These amounts do not include fixed energy use. Fixed energy use is calculated based on the assumption of 0.6 MWh/d, consistent with the value used in IPART's previous determination. This assumption is also supported by historical daily water pumping data and half-hourly electricity consumptions. This fixed energy use is assumed to occur at a constant rate throughout the year, and is allocated to peak, shoulder and off-peak periods on that basis.

Figure 16: WaterNSW energy profile



8.5.3 Summary of results

Following the approach set out above and as outlined in Attachment 9 provides the following results for electricity consumption (in MWh) shown in Table 12: and the results for peak demand shown in Table 13:.

Table 12: Estimated electricity consumption (MWh)

	2026-27	2027-28	2028-29	2029-30	2030-31
Total consumption (MWh)	10,644	10,654	10,652	10,654	10,651
Total variable (MWh)	10,425	10,434	10,433	10,435	10,432
Total Fixed (MWh)	219	220	219	219	219
Total Off-peak (MWh)	7,758	7,768	7,780	7,780	7,760
Total Shoulder (MWh)	2,702	2,710	2,695	2,696	2,704
Total Peak (MWh)	184	177	177	178	187

As illustrated above, around 98% of the pumping occurs during off-peak and shoulder periods, with approximately three-quarters (73%) of the pumping occurs during off-peak periods, and one quarter (25%) of the pumping at shoulder periods. Very little (2%) of the pumping occurs at peak times.

Table 13: Estimated peak electricity demand (MW)

	2026-27	2027-28	2028-29	2029-30	2030-31
Off-peak (MW)	1.83	1.83	1.83	1.83	1.83
Shoulder (MW)	1.83	1.83	1.83	1.83	1.83
Peak (MW)	0.88	0.86	0.86	0.86	0.88

8.5.4 Forecast electricity prices

We engaged Frontier Economics to provide us with these forecast prices for the five-year 2026 Determination period.

To develop independent forecasts of efficient electricity costs for the pipeline, Frontier Economics considered the costs that an electricity retailer would face in supplying electricity to WaterNSW for the Wentworth to Broken Hill Pipeline. These costs are:

- wholesale electricity purchase costs
- energy losses
- unaccounted for energy (UFE)
- network costs
- environmental costs (the costs of complying with environmental and renewable energy policies, including the Small-scale Renewable Energy Scheme [SRES], the Large-scale Renewable Energy Target [LRET] and the NSW Energy Savings Scheme [ESS])
- market fees and ancillary services costs
- retail operating costs and margin.

Frontier Economics then calculated the efficient benchmark price of energy for the pipeline for each year over the 2026 Determination period. Forecast electricity wholesale and network prices are summarised below, with the details of all proposed price components provided in Attachment 9.

Wholesale costs

Generally speaking, and as illustrated in the following table, wholesale electricity contract prices are around \$110/MWh, implying spot prices around \$105/MWh. A load premium of around 76% suggests that the pumping profile enables an average load-weighted electricity price that is only 76% of the average time-weighted electricity price, which results in an estimate of wholesale electricity costs (including the contract premium) of around \$83/MWh.

Table 14: Forecast wholesale electricity purchase costs (\$2025-26/MWh)

	2026-27	2027-28	2028-29	2029-30	2030-31
Contract prices	\$113.73	\$110.35	\$110.35	\$110.35	\$110.35
Spot price	\$108.32	\$105.10	\$105.10	\$105.10	\$105.10
Load premium	76%	76%	76%	76%	76%
Load Weighted Price (LWP)	\$82.33	\$79.81	\$79.79	\$79.81	\$79.93
Wholesale energy cost	\$86.45	\$83.80	\$83.78	\$83.80	\$83.93

Other components of electricity costs

An electricity retailer supplying electricity to WaterNSW for the pipeline must incur costs other than wholesale and network costs. These other costs are summarised below and detailed in Attachment 9.

- **Network costs** – Across the National Electricity Market (NEM), electricity networks (both transmission and distribution) are considered to be natural monopolies and are subject to economic regulation by the Australian Energy Regulator (AER). For the purpose of estimating network costs, we have assumed that – consistent with IPART’s previous Determination – the relevant Wentworth to Broken Hill Pipeline network tariff is the Essential Energy BHND3AO network tariff class.
- **Environmental costs** – costs associated with complying with environmental and renewable energy policies, including the Large-scale Renewable Energy Target (LRET), the Small-scale Renewable Energy Scheme (SRES) and the NSW Energy Savings Scheme (ESS).
- **Market fees** – charged to participants in the NEM by AEMO in order to recover the cost of operating the market. The fees are based on the budgeted revenue requirements of the Australian Energy Market Operator (AEMO). The market fees estimated include usage fees and per National Meter Identifier (NMI) fees.
- **Ancillary services** – services used by AEMO to manage the power system. Ancillary services can be grouped under the following categories:
 - Frequency Control Ancillary Services (FCAS) are used to maintain the frequency of the electrical system.
 - System Restart Ancillary Services (SRAS) are used when there has been a whole or partial system blackout and the electrical system needs to be restarted.
 - Network Control Ancillary Services (NCAS) are used to control the voltage of the electrical network and control the power flow on the electricity network.

AEMO purchases NCAS and SRAS under agreements with service providers. With respect to FCAS, AEMO operates a number of separate markets for the delivery of FCAS.

- **Retail operating costs and margin** – costs incurred in the provision of services by a retailer to its customers, which typically include costs for billing and revenue collection, call centre, customer information, corporate overheads, energy trading, regulatory compliance and marketing. In this instance, the customer is WaterNSW. The retail margin includes a range of costs incurred by retailers, such as depreciation, amortisation, interest payments and tax expenses. The retail margin also represents the return to investors for the retailer’s exposure to systematic risks associated with providing retail electricity services.

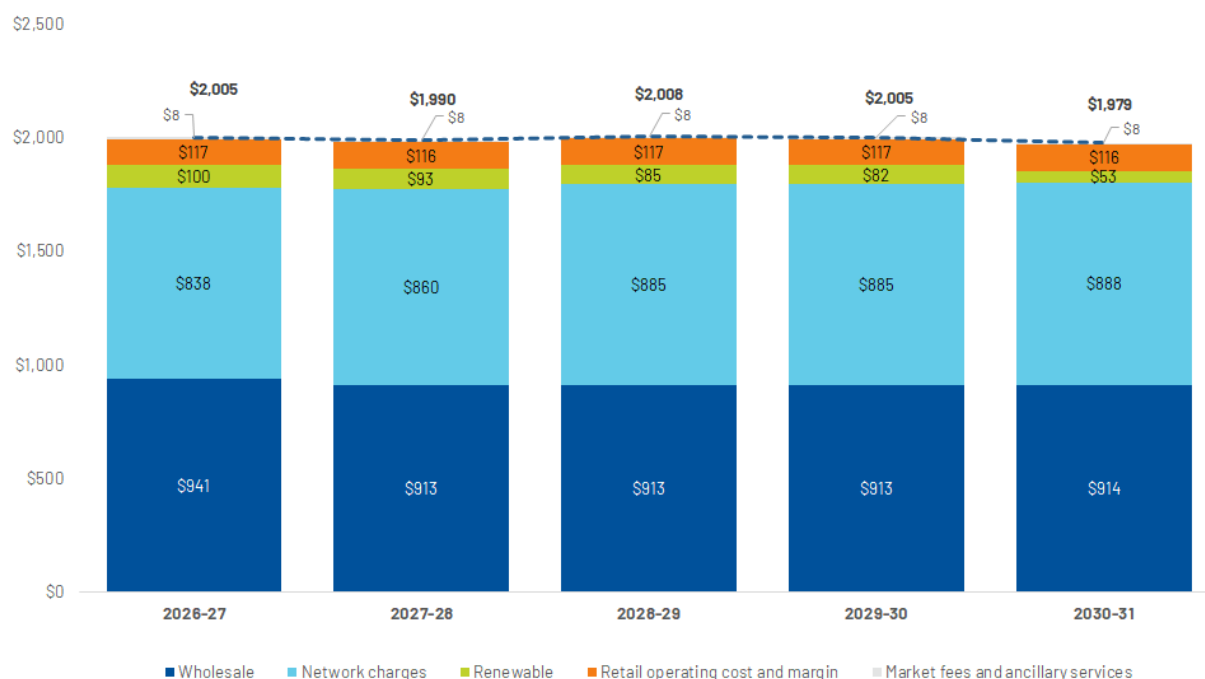
Summary of forecast electricity costs

The electricity forecast for the 2026 Determination period is summarised in Table 15: below and shown graphically in Figure 18. Details on the calculation of the costs of electricity are provided in Attachment 9.

Table 15: Forecast electricity costs (\$2025-26)

\$000	2026-27	2027-28	2028-29	2029-30	2030-31	Total **
Wholesale	\$941	\$913	\$913	\$913	\$914	\$4,594
Renewable	\$100	\$93	\$85	\$82	\$53	\$412
Market fees and ancillary services	\$8	\$8	\$8	\$8	\$8	\$41
Network charges	\$838	\$860	\$885	\$885	\$888	\$4,356
Retail operating cost and margin	\$117	\$116	\$117	\$117	\$116	\$583
Total electricity costs**	\$2,005	\$1,990	\$2,008	\$2,005	\$1,979	\$9,987

Figure 17: Forecast electricity costs by component (\$000s, \$2025-26)



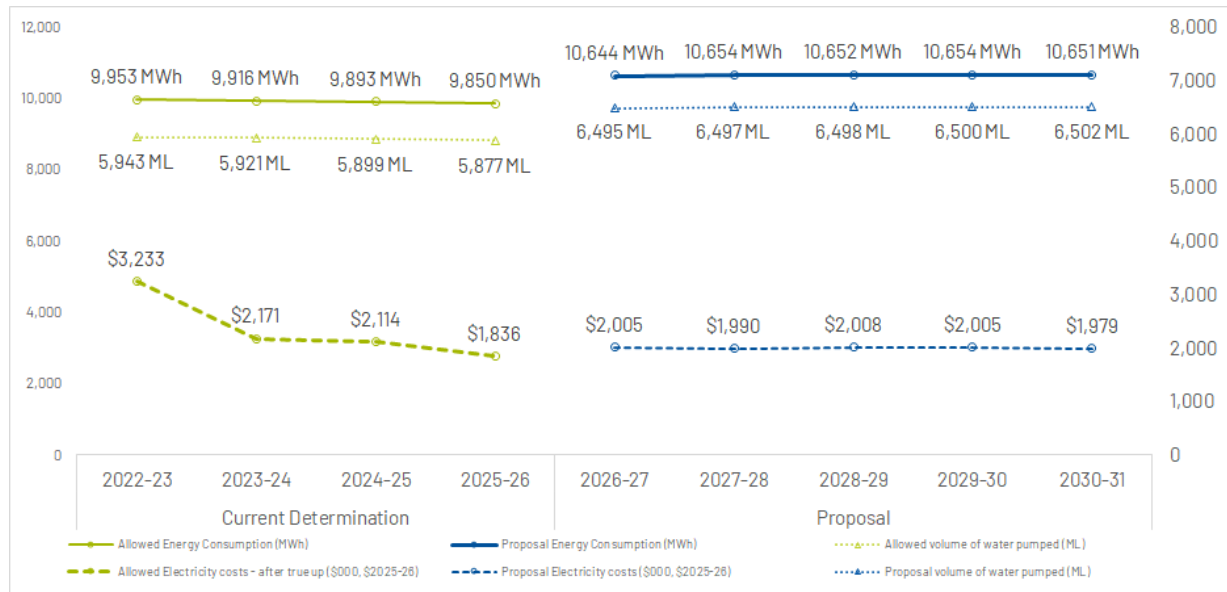
* Based on Essential Water's forecast volumes extracted of 6,255ML per annum, plus losses at the bulk supply facility of average 233ML per annum, plus usage by offtake customers of 10.7ML per annum = 6,499ML per annum of water pumped

**Totals may not add due to rounding.

As illustrated above, wholesale and network charges collectively comprise 90% of forecast electricity costs.

The following table provides an illustration of actual and forecast water usage (ML), electricity used for pumping (MWh) and electricity costs (\$000s).

Figure 18: Energy Consumption, benchmark costs and water pumped



8.6 SPV support costs

SPV support costs are the operational and management costs not directly related to projects, including the cost of providing support services and governance systems.

The creation of the SPV financially separates the pipeline assets from WaterNSW's other regulated and non-regulated businesses and assets. WaterNSW has employed this corporate structure to safeguard WaterNSW's regulated and non-regulated customers from cross-subsidising its pipeline customers.

The management function of the SPV (including shared services) is entirely outsourced to WaterNSW. The services are required for the management and good governance of the SPV, and include: corporate risk management, corporate governance including Executive/Board oversight, economic regulation, legal, taxation (GST and income tax), finance (management and statutory reporting), procurement, billing and account payments, human resources, customer service, supporting infrastructure such as property and IT support, treasury functions and payroll.

The overhead allocated to the pipeline is proposed to be allocated as per our standard cost allocation methodology (CAM) as provided in Attachment 7, using an operating expenditure allocator which excludes electricity costs as per the findings of the 2022 IPART Determination.

IPART must also consider the s16A direction issued under the IPART Act which states that IPART shall include WaterNSW's efficient costs of complying with the SOC Act direction for the Board of WaterNSW to secure the water supply of Broken Hill.

WaterNSW has not included any adjustment to our standard corporate allocation methodology to address any potential decision by IPART whereby WaterNSW should allocate corporate overhead costs on a different basis (i.e. instead of the current operating expenditure allocator) arising from the latest IPART Rural Valleys, Greater Sydney or WAMC decisions.

Any such adjustment could result in a change to the allocated costs for Broken Hill pipeline customers and would need to be accounted for in the 2026 Determination to ensure WaterNSW is not financially disadvantaged and remains 'whole'.

Table 16: Proposed SPV support costs (\$000s, \$2025-26)

\$000	Avg Current DET	2026-27	2027-28	2028-29	2029-30	2030-31
SPV support costs	\$778	\$1,090	\$1,110	\$1,272	\$1,375	\$1,160

8.7 Other operating costs

The SPV incurs operational expenses necessary for the running of the pipeline, including contract management, financial governance and audit and insurance.

In the 2022 Determination, IPART allowed operating expenditures for SPV audit, insurance & land tax, and SPV contract management cost for services to Essential Water and offtake customers.

WaterNSW proposes the following operating costs for services to Essential Water over the upcoming determination period:

- SPV audit (\$36,000 per year)
- contract management (\$118,000 per year)
- insurance and land tax costs (\$189,000 per year).

These other proposed operating expenses for the 2026 Determination period are set out in detail in Table 17 below.

Table 17: Operating Expenditure by Category (\$000s, \$2025-26)

\$000	Avg Current DET	2026-27	2027-28	2028-29	2029-30	2030-31
SPV audit cost	\$36	\$36	\$36	\$36	\$36	\$36
Insurance & land tax	\$205	\$179	\$186	\$190	\$194	\$198
SPV contract management cost	\$193	\$116	\$117	\$118	\$119	\$120

The SPV is required to incur financial governance and audit costs of approximately \$36,000 per annum as part of its reporting obligations under the *Annual Report (Statutory Bodies) Act 1984*, the SOC Act, the *Government Sector Employment Act 2013*, the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2010*. This is the same level as IPART's allowance for this activity in the 2022 Determination.

The SPV will utilise WaterNSW's current insurance cover with iCare for its infrastructure and property assets to cover property, public liability, directors' and officers' liability and statutory liability. The SPV is also expected to incur land tax payable on the land owned by the SPV. WaterNSW proposes costs for insurance and land tax of \$189,000 on average per year over the 2026

Determination period (\$2025-26), which represents a 7% reduction (\$2025-26) compared with the allowance in the 2022 Determination.

The current allowance for insurance was calculated by pro rating the company wide insurance premiums by the proportional value of the pipeline. Our forecast premiums for the 2026 Determination period are based on a more accurate assessment of the cost of insurance for the pipeline based on the latest advice from iCare, where we have seen a material uplift in the Property and Public Liability insurance items due to the overall increase in claims for bushfires and floods in recent years.

Internal WaterNSW labour is required to manage the O&M contract on behalf of the SPV, ensuring compliance by the contractor of the requirements of the O&M contract. WaterNSW proposes contract management costs of \$118,000 per year, which represents a 39% reduction (\$2025-26) compared with the allowance in the 2022 Determination.

8.8 Operating expenditure in the 2022 Determination period

The following table presents WaterNSW's actual operating expenditure compared to the allowed expenditure incurred over the 2022 Determination period.

Overall, actual operating expenditure was 10% below the allowance, reflecting strong cost management across most categories. Costs above regulatory allowances for regulatory and other operating costs were offset by reductions in electricity and support services (e.g. overhead).

The overhead allocated to the pipeline has increased compared to the allowance in the current period. This is predominately due to the higher proportion of costs allocated to the pipeline in line with the CAM using the operating expenditure allocator (excluding energy costs). The allocator is sensitive to the level of operating expenditure in the other WaterNSW Determinations (WAMC, Greater Sydney and the Rural Valleys).

Regulatory submission and reporting costs are higher than the allowance due to increased requirements under IPART's 3Cs framework, enhanced stakeholder engagement, our submission development and to provide assurance regarding the quality of our proposals.

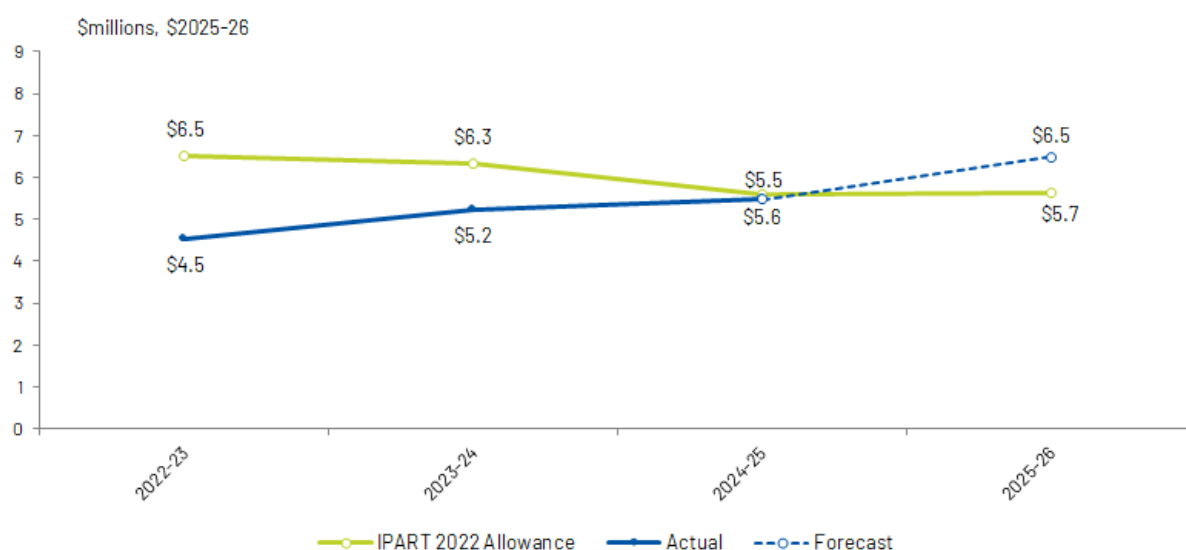
Table 18: Current period operating expenditure actuals vs allowance (\$000s, \$2025-26)

	Average actuals 2023-26 per annum (2022 Determination)	Average allowance 2023-26 per annum (2022 Determination)	Variance (\$)	Variance (%)
Operation and maintenance costs and Asset refurbishment costs	\$1,984	\$2,005	-\$22	-1%
SPV Audit, Insurance and Land tax	\$188	\$240	-\$53	-22%
SPV contract management costs	\$112	\$193	-\$80	-42%
Regulatory submission and reporting costs	\$212	\$77	\$135	175%
Other operating costs*	\$139	\$100	\$39	39%
SPV support costs	\$1,010	\$778	\$232	30%
Electricity costs **	\$1,785**	\$2,627***	-\$842	-32%
Total	\$5,429	\$6,020	-\$591	-10%

*Includes travel, materials and other minor expenses.

** Actual Energy Costs are not comparable to benchmark energy cost. Our contract with the Joint Venture requires energy costs to be calculated using the energy volumes that are pre-booked in the contract and energy rates that are sourced from market procurement, whereas the forecast energy rates in the allowance use the benchmark efficient profile which is consistent with the IPART approach.

*** Allowance re-calculated based on proposal volumes for Offtake customers. **the \$2,627 is \$2,484 if you incorporate the energy true up in the proposed period.

Figure 19: Current period operating expenditures vs allowance (\$millions, \$2025-26)

8.9 Proposed costs vs allowed allowance

The following table presents WaterNSW's proposed operating expenditure for the 2026 Determination period compared to the IPART allowance provided in the 2022 Determination.

The variances are driven by the need to align our proposed operating expenditure with our actual expenditure. As highlighted in the section above our proposed operating expenditure is relatively aligned with our actual expenditure with the exception of energy costs, where we have used

benchmark rates and operating profile as opposed to the pre-booked energy volumes in the contract and energy rates sourced from market procurement.

Increased overhead allocated to the SPV is the largest driver of the variance between the proposed costs and the current period allowance for overhead. WaterNSW is proposing to apply its cost allocation methodology to allocate overhead to the pipeline in line with the current period actuals and WaterNSW's other core determinations.

Table 19: Allowed vs proposed operating expenditure (\$'000s, \$2025-26)

Proposed operating expenditure vs allowance (\$2025-26, '000s)				
	Average allowance 2023-26 per annum (2022 Determination)	Average proposed 2027-31 per annum (2026 Determination)	Variance (\$)	Variance (%)
Operation and maintenance costs	\$1,922	\$2,058	\$136	7%
Asset refurbishment costs	\$83	\$187	\$103	124%
SPV audit costs	\$36	\$36	-\$0	0%
SPV contract management costs	\$193	\$118	-\$75	-39%
Insurance & Land tax	\$205	\$189	-\$15	-7%
SPV support costs	\$778	\$1,201	\$423	54%
Other operating costs*	\$177	\$178	\$1	0.5%
Electricity Costs **	\$2,627**	\$1,997	-\$630	-24%
Total	\$6,020	\$5,963	-\$57	-1%

*Includes regulatory reporting and submission costs, travel costs, and other minor expenses.

** Allowance re-calculated based on proposal volumes for Offtake customers. **the \$2,627 is \$2,484 if you incorporate the energy true up in the proposed period.

9. Capital Expenditure

9.1 Summary

Capital expenditure is needed to renew existing assets and establish new assets that service customers over the longer term. Key drivers of capital expenditure for the pipeline include asset renewals and easement acquisition to meet customer service standards and compliance with regulatory obligations.

The capital expenditure proposal represents an envelope of the overall level of investment to be recovered through prices that WaterNSW considers reasonable to maintain services over the determination period. WaterNSW will invest within IPART's allowed funding envelope within the determination period.

Due to the age and condition of the pipeline, which became operational in 2019, the capital expenditure to date and the forecast for the 2026 Determination period is relatively modest. As the pipeline approaches its first decade of operation, additional scheduled maintenance or replacement of assets, however, is becoming more prevalent.

Figure 20: Allowed, actual and forecast capital expenditure (\$000s, \$2025-26)



The actual and forecast capital expenditures are illustrated above, and are discussed in the following sections.

9.1.1 Capital expenditure in the 2022 Determination period – Essential Water

In the 2022 Determination, asset replacement was treated as operating expenditure for Essential Water's revenues and prices due to the relatively low level of investment in several activities that did not meet WaterNSW's \$5,000 capitalisation threshold at the time.

Actual and allowed capital expenditures for Essential Water over the 2022 Determination period are illustrated below.

Table 20: Actual vs allowed capital expenditure (\$000s, \$2025-26) – Essential Water

	2022-23	2023-24	2024-25	2025-26	Total
IPART 2022 Allowance – Essential Water	\$0	\$0	\$0	\$0	\$0
Actual / forecast	\$47.7	\$201.8	\$223.1	\$224.7	\$697.3
Variance (\$)	\$47.7	\$201.8	\$223.1	\$224.7	\$697.3

* Capex inclusive of capitalised overhead

As illustrated above and over the 2022 Determination period:

- there were no capital expenditures forecast for Essential Water over the 2022 Determination period
- IPART recognised easement costs in the opening RAB (in the FY22 forecast capex) based on the anticipated timing for completing easement acquisition of \$1.4 million (in \$2025-26)
- forecast actual costs for easement acquisition over private land is expected to total \$0.7 million.

9.1.1.1 Easements and access rights

During the initial construction phase of the pipeline, and due to the urgent circumstances and the resultant short lead times, access to the pipe route was initially secured using short-term construction agreements.

Given the long life of the asset, long-term access rights are ultimately needed to ensure the legal right to situate the pipeline on the land and to allow access for operation and maintenance in perpetuity.

As discussed in this section, access rights to all privately held land have been acquired in the form of easements. However, acquisition of access rights for Crown land has taken some time due to the need to first extinguish the Western Lands leases on the Crown land. This process has only recently been completed to allow WaterNSW the opportunity to proceed to acquiring easements and securing access.

The next step is the compulsory acquisition of the easements on 17 lots of Crown land, and this is addressed in section 9.2.1.2 below.

Regarding the historic easement acquisition costs, we note that the corresponding costs of easement allowances were approved for the 2020-21 financial year and included in the asset roll

forward as part of the opening RAB for the 2022 Determination. As part of IPART's consultant's (AECOM) expenditure review report for the 2022 Determination, the following was noted:

WaterNSW attributes a large proportion of its capital cost to land acquisitions required to place infrastructure such as pump stations, bulk water storage and access to place pipe on private lands. While land acquisition is prudent for these reasons, WaterNSW's pricing proposal does not explain in detail the reasons behind the requirements for the additional acquisitions or costs.

Further discussion with WaterNSW has provided more information on this item. WaterNSW is forecasting capital expenditure of \$301,000 in FY21 for easement acquisition and leasing costs with landholders, including costs of surveying and planning, the largest landholder being [redacted]. Further [redacted] acquisition costs of \$1.2 million are expected to be incurred in FY22. WaterNSW has stated that the land acquisitions are necessary to place infrastructure such as pump stations and bulk water storage and provide access to place pipe on private lands.

WaterNSW has suggested that the commercial nature of the negotiations for land acquisitions are responsible for the difference between forecast costs and actuals. It is unclear if additional land was required as the driver for these costs, or if the costs were significantly higher due to the commercial negotiations. ...

Findings

Land acquisition is a necessary activity to ensure infrastructure is available to support pipeline operations. WaterNSW has cited the nature of commercial negotiations for the excess costs in this area. We find that the costs are reasonable...¹⁸

Therefore, while the forecast easement costs in 2020-21 of \$1.2 million (\$2021-22) were accepted as reasonable by IPART's consultants for the acquisition of easements on private land, only \$0.7 million is to be invested in the 2022 Determination period to ensure legislated access to private land near the pipeline and associated facilities.

Easement acquisition for Crown land, in addition to the private land easements acquired in the 2022 Determination period, has commenced and will be completed during the 2026 Determination period.

9.1.2 Capital expenditure in the 2022 Determination period – Offtakes

In 2022, IPART treated asset replacement costs for offtake customers as capital expenditure due to the material impact that treating the costs as operating expenditure as part of the building block framework would have on customer bills.

While \$11,600 was allowed by IPART in the 2022 Determination over four years for capital expenditure for offtakes, \$4,500 (\$2025-26) is anticipated to be invested in offtakes over the current determination period. This is slightly lower in dollar terms (\$7,100 -but significantly below in percentage terms given the low base) than the allowance from the 2022 Determination.

¹⁸ AECOM Expenditure Review of WaterNSW Broken Hill Pipeline – Excluding Energy Costs- for IPART. Page 52.

Table 21: Actual vs allowed capital expenditure (\$000s, \$2025-26) – Offtakes

	2022-23	2023-24	2024-25	2025-26	Total
IPART 2022 Allowance – Offtakes	\$1.1	\$0.3	\$2.9	\$7.4	\$11.6
Actual / forecast – Offtakes	\$1.1	\$0.3	\$3.0	\$0	\$4.5
Variance (\$)	\$0.1	\$0	\$0.1	-\$7.4	-\$7.1
Variance (%)	4.7%	5.5%	6.2%	-100%	-61%

* Capex above represents offtakes paying regulated prices

9.2 Forecast capital expenditure for the 2026 Determination period

9.2.1 Capital expenditure forecast for the 2026 Determination period – Essential Water

9.2.1.1 Asset replacement

As discussed in Section 8.4, unlike in the 2022 Determination, where all asset replacement was treated as operating expenditure due to the activities not meeting the capitalisation threshold, 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 (see section 8.4)
- activities and costs relating to replacement would be treated as capital expenditure.

WaterNSW notes that this treatment is not a change, but rather the continued application of WaterNSW's capitalisation policies in line with accounting standards. As noted above, expenditures in the current determination did not meet the capitalisation thresholds. Although WaterNSW is only proposing minor asset replacement, these amounts nonetheless do meet the thresholds for capitalisation and have been proposed as such.

Table 22: Asset replacement costs (\$000s, \$2025-26)

\$000	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Asset replacement – Essential Water	\$25.8	\$275.1	\$734.1	\$11.2	\$43.1	\$1,089.4

* Capex inclusive of capitalised overhead

Examples of specific replacement items include:

- Pipeline – air relief valves – Pumps – main pumping units 1,2 and 3
- Cathodic protection
- Bulk water storage – includes Storage Cell 1 diffuser, grounds, four bulk storage screens, cleaning instrumentation
- Other – includes UPS battery bank and numerous smaller items less than \$5,000.

9.2.1.2 Easement and access right acquisition costs

As discussed in Section 9.1.1 above, in the current determination period, WaterNSW secured easements required to place, maintain and access infrastructure such as pump stations, bulk water storage over private lands.

While the investment in acquiring easements over private land is largely complete, easements and access rights are also required for Crown land and land subject to Native Title determinations to ensure enduring and uninterrupted access to the remainder of our infrastructure. WaterNSW will need to secure access for 17 parcels of Crown land.

While negotiations are ongoing, WaterNSW has forecast \$234,900 as outlined in Table 23: for easement and access right acquisition administration costs for Crown lands during the 2026 Determination periods.

Table 23: Forecast capital expenditure for easement acquisition administration costs (\$000s, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Easement acquisition Essential Water	\$234.9	\$0.0	\$0.0	\$0.0	\$0.0	\$234.9

* Capex inclusive of capitalised overhead

The actual acquisition costs for the easements and access rights for Crown land are contingent on the outcomes of negotiation processes including assessments by the Valuer General that are still pending. For the avoidance of doubt, the proposed easement acquisition costs for the 2026 Determination period provided in Table 23 do not include the outcomes of the ongoing negotiation processes.

To reflect the uncertainty of the costs moving forward, WaterNSW proposes the following risk mitigation mechanisms for access and access right acquisition costs:

- the proposed easement acquisition and access right administration costs outlined in Table 23 are included in the building block revenue requirement for Essential Water for the 2026 Determination period
- a “true-up” of actual costs occurs subject to IPART’s review of the prudence of the expenditure
- actual capitalised costs for the acquisition of easements and access rights including any associated holding costs are rolled into the RAB for the 2031 Determination in the usual manner.

9.2.2 Capital expenditure in the 2022 Determination period – Offtakes

For the 2026 Determination period, WaterNSW is proposing minimal capital expenditure on the assets servicing offtake customers that is required to ensure continued supply, as set out in the table below.

Table 24: Forecast capital expenditure for asset replacement (\$000s, \$2025-26) – Offtakes

\$000	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Asset replacement – Offtakes	\$0	\$11.7	\$41.4	\$0	\$0	\$53.1

* Capex inclusive of capitalised overhead for all 5 offtake structures.

Investment for offtakes is expected to continue to be relatively low at approximately \$10,628 per year over the 2026 Determination period. Investment for offtakes is forecast at \$53,138 over the five-year regulatory period inclusive of capitalised overheads and includes the following items:

- non return valves of \$11,000 (excluding overhead) allow water to flow in the downstream direction only
- remote terminal unit for \$25,000 (excluding overhead) to monitor and control field devices
- antennas for operating systems \$10,000 (excluding overhead).

9.3 Proposed capital expenditures for the 2026 Determination period

The following Table 25: summarises our proposed capital expenditure for the five-year 2026 Determination period.

Table 25: Forecast capital expenditure (\$000s, \$2025-26) – Essential Water and offtakes

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Easement acquisition Essential Water	\$234.9	\$0.0	\$0.0	\$0.0	\$0.0	\$234.9
Asset replacement – Essential Water	\$25.8	\$275.1	\$734.1	\$11.2	\$43.1	\$1,089.4
Asset replacement – Offtakes	\$0	\$11.7	\$41.5	\$0	\$0	\$53.1
Total	\$260.7	\$286.8	\$775.6	\$11.2	\$43.1	\$1,377.4

* Capex inclusive of capitalised overhead.

As illustrated above, WaterNSW proposes **\$1,377,400** of capital expenditure (excluding inflation) over the five-year determination period for Essential Water and offtakes. This modest expenditure reflects the relatively early stage of the pipeline's life cycle and its overall condition. The peak in 2028-29 provides insight into the shorter-lived nature of some components of the pipeline that will require more regular periodic replacement over the economic life of the pipeline as a whole.

With forecast capital expenditure well below the pipeline's return of capital (regulatory depreciation of \$6.3 million per year as discussed in Section 11), the pipeline RAB is forecast to reduce in real terms over the upcoming period.

10. Regulatory asset base

10.1 Summary

The Regulatory Asset Base (RAB) is used to calculate the regulatory depreciation (capital investment / asset life) and return on assets (WACC X RAB) under the IPART Building Block revenue requirement calculation.

WaterNSW's proposed RAB roll forward methodology and calculations for Essential Water and offtake customers are provided in Attachment 13.

The forecast value of the 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 26: RAB for 2026 Determination period (Essential Water RAB) (\$000s, \$2025-26)

Step 2 - Opening RAB at 2024-25 (\$000s, \$2025-26)					
Essential Water	2026-27	2027-28	2028-29	2029-30	2030-31
Opening RAB	\$456,868	\$450,770	\$444,685	\$439,044	\$432,658
Plus: Capex (net of cap cons)	\$261	\$277	\$742	\$11	\$43
Less: Asset Disposals	\$0	\$0	\$0	\$0	\$0
Less: Regulatory depreciation	\$6,358	\$6,363	\$6,383	\$6,398	\$6,398
Plus: 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.

The forecast value of the Wentworth to Broken Hill Pipeline RAB for offtake customers at the end of the 2026 Determination period in 2030-31 is much lower than the Essential Water RAB at **\$256,000** in 2025-26 real terms as discussed in Attachment 13.

As discussed in Section 10, as forecast capital expenditure is well below the pipeline's return of capital (regulatory depreciation of \$6.3 million per year), the pipeline RAB is forecast to reduce from \$451 million to \$426 million in real terms over the upcoming period as illustrated in Table 26.

11. Return of capital (regulatory depreciation)

The return of capital or regulatory depreciation building block component constitutes around 23% of the proposed net revenue requirement, highlighting the capital intensive nature of the pipeline.¹⁹

WaterNSW has, consistent with the current determination:

- adopted the straight-line method for calculating forecast depreciation of the RABs over the 2026 Determination period
- applied an asset life for each asset categories included in the 2022 Determination period.

11.1 Proposed asset life assumptions – new assets

WaterNSW proposes the following asset lives for the 2026 Determination period for new assets created during the Determination period

Table 27: Asset life assumptions 2026 proposal

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

11.2 Proposed asset life assumptions – existing assets

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

¹⁹ Excluding the cost of debt true up

Table 28: 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/refurbishment	2
Weighted average life	86

11.3 Proposed return of capital for Essential Water and Offtakes

Based on the RAB values in Section 10 and the asset life assumptions outlined above in Section 11.2 WaterNSW proposes the return of capital (depreciation) allowance for Essential Water and offtakes as shown in below.

Table 29: Proposed return of capital (\$000s, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water	\$6,262	\$6,267	\$6,286	\$6,301	\$6,301	\$31,417
Offtakes	\$19.5	\$20.0	\$21.4	\$22.8	\$22.8	\$106.6

12. Rate of return

12.1 Proposed method

The return on capital covers the cost of servicing our debt and provides a return to our shareholders for their equity investment in the pipeline. It is calculated by multiplying the value of our regulated asset base by the rate of return on equity and the rate of return on debt. WaterNSW is proposing to apply IPART's 2018 Weighted Average Cost of Capital (WACC) method for determining the rate of return on capital.

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 average equity capital.

In this section, we outline an approach to estimating the WACC based on IPART's standard methodology. 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.

12.2 Why is it important?

The return on assets component contributes approximately 50% of the proposed net revenue requirement to provide pipeline transportation services and meet our customer and statutory obligations and is the single largest driver of required revenues and prices for the pipeline.²⁰

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 will not be able to attract the capital it requires in order to invest in water infrastructure for the pipeline. 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, customers would pay more than the efficient cost of delivering transportation 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 2018 WACC method, market data will be updated closer to the Draft and Final Determinations, with the cost of debt allowance updated during the determination period.

²⁰ Excluding the cost of debt true up

Therefore, the rate of return proposed in this pricing proposal should be considered a ‘placeholder’ as the estimates will be updated during the 2026 Determination review process.

12.3 Our rate of return proposal

WaterNSW proposes a placeholder **post-tax real WACC of 3.1%** for the five-year determination period by applying:

- IPART’s 2018 WACC method for calculating the post-tax nominal WACC²¹
- IPART’s estimates of sector-wide parameters and financial market information as published by IPART in its Bi-annual WACC Update from February 2025 for a benchmark water business with a five-year determination period.²²

IPART’s 2018 WACC Methodology is based on a ‘post-tax real’ framework. The methodology sets a fixed cost of equity allowance for the determination period, and requires annual updates to the cost of debt during the determination period using updated market information. Whether the revenue impact of the annual cost of debt updates is addressed at each annual price change or held and adjusted at the subsequent determination is a separate consideration that is addressed below.

We consider that IPART’s methodology is a reasonable proxy for our benchmark cost of capital and is in the best interests of customers for the 2026 Determination.

The placeholder post-tax real WACC of 3.1% represents a 0.3% increase from the allowed WACC of 2.8% in the current 2022 Determination, reflecting the increase in government bond yields that have occurred since that time.

The Table 30: below presents WaterNSW’s proposed placeholder WACC used in our calculation of proposed revenues and prices in this pricing proposal.

²¹ See *IPART Review of our WACC method – Final Report 2018*. <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/investigation-administrative-legislative-requirements-sea-wacc-methodology-2017/final-report-review-of-our-wacc-method-february-2018.pdf>

²² See <https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Regulatory-policy/WACC/Market-Update/Spreadsheet-WACC-model-February-2019>

Table 30: Proposed WACC for the 2026 Determination period

WACC Parameter	Current	Long-term	Midpoint
Nominal risk free rate	3.0%	2.7%	2.9%
Inflation forecast	2.6%	2.6%	2.6%
Debt margin	2.0%	2.1%	2.1%
Benchmark gearing	60%	60%	60%
Market risk premium	6.2%	6.0%	6.1%
Gamma	0.25	0.25	0.25
Equity beta	0.7	0.7	0.7
Cost of equity (nominal post-tax) [*]	7.3%	6.9%	7.1%
Cost of debt (nominal pre-tax) [*]	5.0%	4.8%	4.9%
Nominal Vanilla (post-tax nominal) WACC [*]	5.9%	5.6%	5.8%
Post-tax real WACC[*]	3.3%	3.0%	3.1%

* Note: All estimates rounded to one decimal place

12.4 How to pass through annual changes in the cost of debt

Under IPART's trailing average approach for determining the allowances for the long-term and current cost of debt, IPART must update its decision on the cost of debt each year.²³

IPART has indicated that it would decide whether to reflect the annual updates of the cost of debt allowance through annual price adjustments or via an end-of-period true-up on a case-by-case basis, as part of its review process. IPART indicated that in making this decision it would have regard to any evidence the regulated firm or its customers put forward to support one approach or the other, with neither option being viewed as the default.

WaterNSW's usual preference is for IPART to allow annual updates for the cost of debt on the following basis that it provides cash flow timing impacts, incentive to incur efficient debt raising costs and the realisation of immediate price reductions for customers.²⁴

However, as per our 2021 pricing proposal, we have listened to the concerns of our major customer, Essential Water on this matter. Essential Water has expressed concerns over its ability to pass through changes in prices within the 2026 Determination period for changes in the cost of debt and has requested that WaterNSW not seek annual adjustments and instead seek an end of period true-up.

On this basis, and the likelihood that any adjustments would be relatively small for the pipeline, WaterNSW proposes that an end-of-period true-up is appropriate for the 2026 Determination period, but this position is specific for the pipeline.

²³ IPART *Review of our WACC method – Final Report*, February 2018. Page 38.

²⁴ WaterNSW has consistently advocated for annual adjustments to the cost of debt as most recently included in our 30 September 2024 bulk water proposal [2024-Pricing-Proposal-WaterNSW-Attachment-19-RAB-asset-lives-regulatory-depreciation-and-WACC.PDF](#) page 20.

12.5 Return on capital

The application of the placeholder WACC presented in section 12.3 above to the pipeline RABs and as outlined in Attachment 13 results in a proposed return on capital building block component for Essential Water and offtake customers for the 2026 Determination period of **\$68 million** over five years as illustrated in the following table.

Table 31: Proposed return on capital for the 2026 Determination period (\$000s, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water	\$13,952	\$13,766	\$13,588	\$13,404	\$13,210	\$67,921
Offtakes	\$9.8	\$9.3	\$9.4	\$9.2	\$8.5	\$46.3

*The return on capital presented for Essential Water includes the tax allowance and working capital allowance relating to the RABs for unfunded operating expenditure over the 2022 Determination and the foregone revenue from the land swap agreement.

13. Income tax allowance

WaterNSW has included in its proposed notional revenue requirement its estimated tax liability (or the regulatory tax allowance), in accordance with IPART's decision on the *Incorporation of Company Tax in Pricing Decisions*.

WaterNSW has forecast a regulatory tax allowance of **\$0.7 million per year** on average during the 2026 Determination period.

Details of WaterNSW's proposed tax allowance are provided in Attachment 14.

14. Allowance for working capital

An additional building block is working capital. The difference between current assets and current liabilities arising from the timing differences between accounts payable and accounts receivable, creating a financial liability for WaterNSW. IPART's methodology of determining the working capital allowance is generally based on a 45-day payment term for account receivable and a 30-day payment term for accounts payable.

WaterNSW has forecast a small working capital allowance of approximately **\$163,000 per year** on average during the 2026 Determination period.

Details of WaterNSW's proposed working capital allowance are provided in Attachment 14.

15. Notional revenue requirement

15.1 Building block approach

WaterNSW supports the continued use of the 'building block' approach to develop the target revenue allowance. The building blocks form the regulated entity's cost base for pricing purposes, and the sum of the building blocks is referred to as the 'notional revenue requirement', which is used by IPART to construct prices.

The notional 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.

WaterNSW has calculated its notional revenue requirement using the regulatory asset base (RAB) building blocks approach for both the pipeline assets and offtake assets. WaterNSW has addressed each required building block element of the notional revenue requirement, as highlighted in Table 32:.

Table 32: 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 Section 10 (including the capital expenditure assumptions from Section 9) and Attachment 13. The WACC is discussed in Section 12.
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.	The RAB is discussed in Section 10 (including the capital expenditure assumptions from Section 9) and Attachment 13. Depreciation and asset life assumptions are discussed in Section 11 and Attachment 13.
Operating Expenditure	The operating expenditure allowance consists of a Base-Trend-Step forecast of the operating expenditure needs of the pipeline, including the costs associated with energy costs and the management and good governance of the SPV.	Base-Trend-Step operating expenditure is summarised in Section 8 and discussed more fully in Attachment 8 Energy costs are discussed more fully in the expert report provided as Attachment 9. Refurbishment costs are discussed in more detail in Attachment 11.
Tax Allowance	The regulatory tax allowance is an estimate of the SPV'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 Section 13 and Attachment 14.
Working Capital allowance	The working capital allowance is a nominal amount which compensates the SPV for the liability that arises due to the timing differences between accounts payable and accounts receivable.	The working capital allowance is discussed in Section 14 and Attachment 14.
Customer Charges	Individual charges to recover the notional revenue requirement, including specific charges for Essential Water and the offtake outlet customers.	The charges to recover the notional revenue requirement are discussed in section 17.

15.2 Proposed revenue requirement

The application of the building blocks outlined above results in a proposed a revenue requirement over the five years of the 2026 Determination period of **\$138.5 million** or an average of **\$27.7 million** per year that is **\$3.0 million (12.2%) higher per year** on average compared with the 2022 Determination period average. Our proposed revenue requirement is illustrated in Table 33:.

Table 33: Notional Revenue Requirement (Essential Water and Offtakes)(\$000s, \$2025-26)

	FY23-26 Avg	2026-27	2027-28	2028-29	2029-30	2030-31	Total	Avg
Operating expenditure*	\$6,020	\$5,866	\$5,701	\$6,473	\$6,000	\$5,776	\$29,816	\$5,963
Return on assets	\$12,850	\$13,962	\$13,776	\$13,597	\$13,414	\$13,218	\$67,967	\$13,593
Regulatory depreciation	\$6,066	\$6,281	\$6,287	\$6,307	\$6,323	\$6,324	\$31,523	\$6,305
Return on working capital	\$363	\$629	\$662	\$695	\$727	\$757	\$3,469	\$694
Tax allowance	\$136	\$164	\$164	\$162	\$164	\$162	\$816	\$163
Revenue adjustments^	-\$906	\$974	\$974	\$974	\$974	\$974	\$4,869	\$974
Inflation due to delayed review	\$153	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total NRR	\$24,683	\$27,876	\$27,563	\$28,208	\$27,602	\$27,212	\$138,460	\$27,692

* Electricity costs have been adjusted to reflect water usage forecasts provided by Essential Water and average actual usage by offtake customers.

^ FY23-26 is the average of the 2022 Determination period.

15.2.1 Key features of our proposed revenue requirement

Our proposed revenue requirement is **\$3.0 million (12.2%) higher per year** on average compared with the 2022 Determination period average, primarily due to: (1) a higher placeholder WACC for the 2026 Determination period and (2) the cost of debt true-up that adjusts future revenues for the higher interest rates in the current determination period compared to the 2022 Determination cost of debt assumptions.

The key elements of our building block proposal (\$2025-26) are as follows:

- **opening RAB** of \$457 million
- **return on capital** averaging \$13.6 million per year on average based on a post-tax real placeholder **WACC of 3.1%** based on IPART's standard WACC method
- **return of capital** (regulatory depreciation) allowance averaging \$6.3 million per year with an average asset life of 86 years
- **operating expenditures** averaging \$6.0 million per year over the five years
- **income tax allowance** of \$0.7 million per year and a working capital allowance of \$0.2 million per year
- **revenue adjustments** of \$1.0 million per year, consisting of a cost of debt true-up adjustment of \$1.1 million per year due higher interest rates that is partially offset by our proposed electricity cost true-up of -\$0.1 million per year.

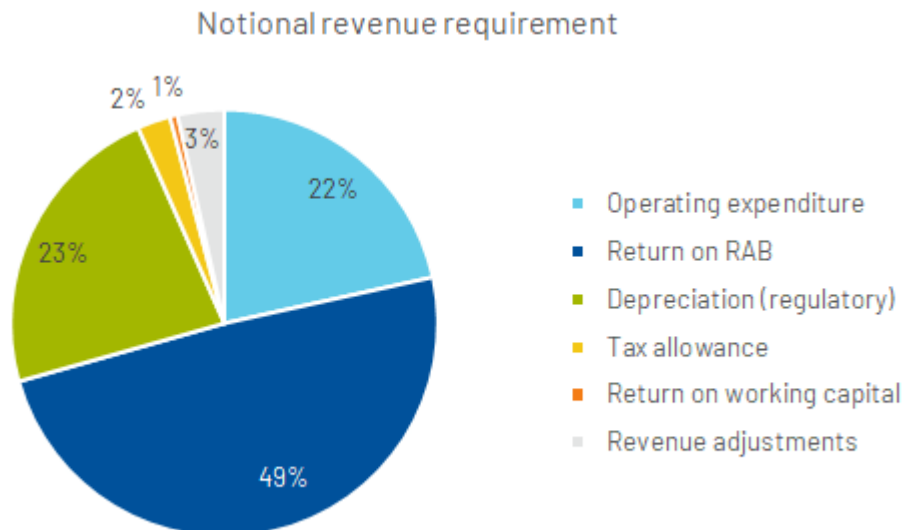
We note that the **cost of debt true-up** impact over the upcoming period of \$5.5 million (\$2025-26) is exaggerated as it replaces the true-up from the 2022 Determination period where interest rates were lower than in the previous determination and the true-up was a negative adjustment to revenues in the 2022 Determination period (i.e. the revenue requirement was -\$3.6 million over four years).

Removing the negative cost of debt true-up adjustment from the 2022 Determination and then replacing it with a positive adjustment for the 2026 Determination period creates a \$2 million (8.2%) swing on revenues and prices for the upcoming regulatory period. The approach of implementing an

'end of period' true-up compared with an annual cost of debt true up compounds the revenue and pricing effect in these circumstances.

As shown in Table 33: above and as illustrated in Figure 21: below, the largest building block component is the return on assets (49%), followed by the return of capital (23%) and the operating expenditures (22%). This reflects the capital intensive nature of the pipeline, whereby almost three-quarters of the NRR is related to the return on capital and the return of capital (regulatory depreciation).

Figure 21: Building block components of the notional revenue requirement



Source: WaterNSW analysis.

15.3 Actual vs allowed revenue

The table below presents the variance between WaterNSW's actual revenue over the 2022 Determination period and the assumed revenue from charges as determined by IPART.

Table 34: Actual vs allowed revenue over the 2022 Determination period (\$000s, \$nominal) – Essential Water and Offtakes

	2022-23	2023-24	2024-25	2025-26	Total	Average
Allowed revenue from charges	\$24,773	\$23,454	\$23,878	\$24,448	\$96,553	\$24,138
Actual / forecast revenue	\$23,498	\$23,446	\$24,194	\$24,795	\$95,933	\$23,983
Variance (\$)	-\$1,275	-\$8	\$316	\$347	-\$620	-\$155
Variance (%)	-5.1%	0.0%	1.3%	1.4%	-0.6%	-0.6%

As illustrated above, actual (2022-23 to 2024-25) and forecast (2025-26) revenue over the current determination period is **within 1% (-0.6%)** of the revenue requirement forecast in the 2022 Determination. This highlights the benefit and effect of the current tariff structure in managing volume risk for our customers and WaterNSW.

16. Forecast customers numbers and water usage

To convert the NRR into prices, IPART needs to determine the forecast number of customers and offtakes, and the volume of water sales to those customers in each year of the determination period.

The number of customers and offtakes is used to determine fixed access charges, and the water sales volume forecasts are used to estimate what proportion of the NRR will be recovered through variable usage charges.

16.1 Customer numbers

16.1.1 IPART's 2022 Decision on customer numbers

In 2022, IPART decided to accept WaterNSW's forecast customer numbers and the number of offtakes for the pipeline as shown below.

Table 35: Forecast customer and offtake numbers from the 2022 Determination

	2019-20	2020-21	2021-22
IPART decision			
Essential Water	1	1	1
Offtakes	5	5	5

Source: WaterNSW pricing proposal to IPART, June 2018, pp 71-72 and supporting modelling provided with the pricing proposal. IPART Table 7.1 from the Final Report.

16.1.2 Proposed customer numbers

The pipeline's primary customer continues to be Essential Water. The pipeline's primary purpose is to transport water to provide Essential Water with a source of bulk water to improve the security of water supply for its customers (i.e. end-users in the Broken Hill area).

WaterNSW also uses the pipeline to transport water to a number of offtakes along its route, under separate agreements with the relevant customers.

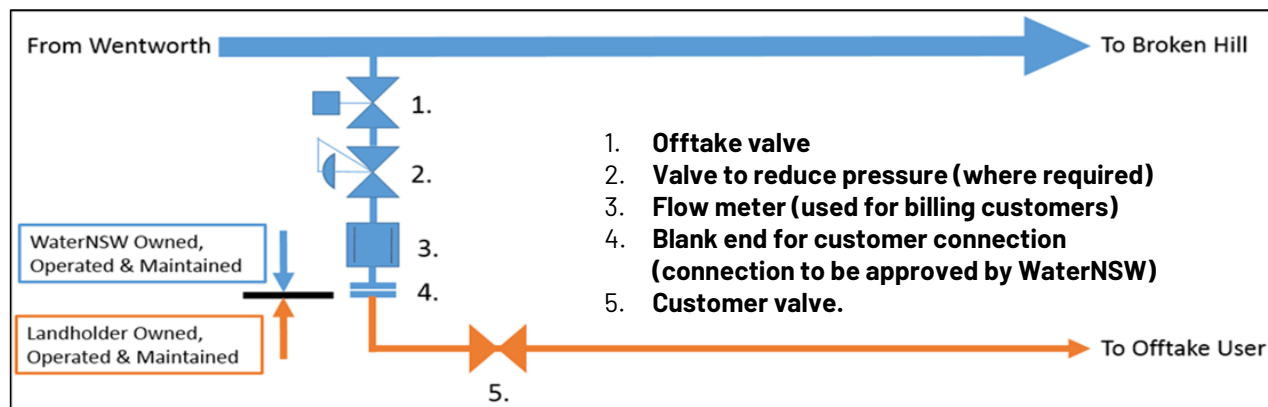
Table 36: Offtakes and offtake customers

Offtake structures (5)	Offtake customers (4)
Kudjee Station	Kudjee Station
Balaclava	Balaclava
Pinepoint / Sunnydale	Pinepoint/Sunnydale 1 and Pinepoint/Sunnydale 2
Netley Cattle Yards	-
Netley Station	-

Regarding the difference between the number of offtakes and offtake customers, we note that:

- Netley Cattle Yards and Netley Station are not taking any water and have not entered into a Water Agreement. All the other offtakes are taking water.
- One offtake customer (at Balaclava) is not charged as they receive access to an offtake close to the bulk water storage in exchange for land access.
- The offtake structure at Pinepoint / Sunnydale is one structure, but two customers share the costs equally.

Ownership arrangements for the pipeline and offtake assets are set out in the figure below.

Table 37: Offtake ownership arrangements

WaterNSW proposes maintaining the forecast number of offtakes at five, as we are not aware of any additional offtakes that are imminent or likely to be required over the next few years.

WaterNSW proposes to maintain the customer numbers from the 2022 Determination in each year of the 2026 Determination period. That is:

- Essential Water (1 customer); and
- Offtakes (5 offtakes / 4 offtake customers).

WaterNSW proposes that the final determination maintains the current approach of **enabling WaterNSW to negotiate non-regulated agreements** with potential new customers so that new customers can be added during the upcoming determination period.

16.2 Water usage volumes

WaterNSW's usage forecast is made up of the following elements:

- Essential Water forecast usage
- Offtake customers forecast usage.

16.2.1 IPART's 2022 decision on forecast water volumes

IPART's forecasts for water usage from the 2022 Determination and WaterNSW's forecasts for the 2026 Determination period are outlined below. In the 2022 Determination, IPART did not accept WaterNSW's forecast water sales volumes to Essential Water and instead set these volumes as shown below. IPART's volumes were 23% per year lower than WaterNSW's forecast volumes, on average.

Table 38: Allowed and Actual / Forecast water sales (ML)

Consumption (ML)	2022-23	2023-24	2024-25	2025-26	Average
IPART 2022 Determination					
Essential Water [^]	5,549	5,527	5,505	5,483	5,516
Offtakes*	3.6	3.6	3.6	3.6	3.6
Total	5,553	5,531	5,509	5,487	5,520
WaterNSW actual / forecast water sales					
Essential Water	4,153	5,494	6,235	6,250	5,533
Offtakes [^]	10.7	17.4	35.2	10.7	18.5
Total	4,164	5,511	6,270	6,261	5,551
<i>% Change (IPART vs Actual)</i>	-25%	0%	14%	14%	1%

* Including land swap offtake customer

[^] The 2025-26 offtakes forecast is based on the historical average from 2020-21 to 2022-23. Forecasts for Essential Water have been provided by the customer.

As illustrated above, forecast / actual water usage over the 2022 Determination period has been 1% above IPART's forecasts:

- Essential Water forecast / actual usage over the period is 0.3% above IPART's allowances on average
- Offtake forecast/ actual usage is 408% above IPART's allowance on average.

16.3 Water usage forecast for Essential Water

Forecast water usage for Essential Water is based on a detailed 'bottom-up' analysis provided by our major customer as set out in the table below.

Table 39: Forecast water sales for the 2026 Determination period (ML)

Consumption (ML)	2026-27	2027-28	2028-29	2029-30	2030-31	Average
Essential Water	6,252	6,254	6,255	6,257	6,259	6,255
Offtakes	10.7	10.7	10.7	10.7	10.7	10.7
Total	6,263	6,265	6,266	6,268	6,270	6,266
% Change (Proposed Avg vs Actual Avg)						13%

Source: WaterNSW analysis.

Essential Water has advised that the forecast increase in proposed water usage over the 2026 Determination period is due to the following factors:

- a reduction in rainfall levels over the last 2 years. A recent drought forecast for 31 Aug 2025, by the Department of Primary Industries and Regional Development shows Broken Hill as a drought affected area
- less availability of water from Essential Water's own sources
- the actual volume Essential Water has recorded for FY25.

While IPART's forecast metered water sales for Essential Water has proven to be reasonably accurate over the current determination period, for the reasons cited above from Essential Water, forecast volumes are **6,255 ML** on average, which is **13% higher** than actual water usage in the current determination period.

Water usage is a major driver of operating expenditure for the pipeline (through the cost of electricity), as discussed in Section 8, and is also relevant to the tariff structure discussed in Section 17. WaterNSW considers the forecasts by Essential Water to be reasonable for inclusion in the 2026 Determination.

WaterNSW also notes that, based on our proposal to maintain the tariff structure from the 2022 Determination, the risk of getting the sales forecast 'wrong' for WaterNSW is mitigated by the approach to setting variable usage charges that reflect the marginal costs of electricity associated with pumping.

16.4 Water usage forecast for Offtakes

As illustrated in Table 39:, water usage for offtakes is forecast to increase from IPART's allowance of 3.6 ML per year from the 2022 Determination period to **10.7 ML per year** for the 2026 Determination period.

Actual usage during the regulatory period has been 10.7 ML per year from 2020-21 to 2023-24 as previously illustrated in Table 38:. WaterNSW considers that using this revealed average usage is prudent and aligned our 2026 Determination forecast accordingly to **10.7 ML per year**.

17. Pricing structures

Having calculated WaterNSW's notional revenue requirement for the 2026 Determination period in Section 15 and the forecast water usage and customer numbers as outlined in Section 16, we then convert the notional revenue requirement into prices. To do this, a number of steps are required:

- identify the target revenue for each year
- assess the revenue expected from other sources
- apply the structure of WaterNSW's prices and the revenue to be generated from various charges
- set the proposed level of prices.

IPART's approach for converting the notional revenue requirement into prices from the 2022 Determination is appropriate and we propose that it is retained for the 2026 Determination period.

17.1 Introduction

Section 15 of the IPART Act requires IPART to have regard to a number of matters in making its pricing determinations, including:

- protecting consumers from unreasonable price increases or inefficient practices
- ensuring monopoly service providers earn a fair rate of return on prudent and efficient investments
- encouraging regulated service providers to improve their economic efficiency and maintain or improve their service quality
- encouraging competition where possible
- ensuring that regulated service providers remain financially viable
- maintaining ecologically sustainable development and protection of the environment.

WaterNSW has considered the above matters in developing our proposed charging structures for Essential Water and offtake customers.

Individual charges have been apportioned to Essential Water and offtake customers by reference to the service standards provided to the pipeline customers, the contribution each customer makes in creating the cost and their requirements for the pipeline. Much of the cost of the pipeline will be charged to Essential Water, for which the pipeline has been constructed, in line with the principles described above.

The extent to which Essential Water's end users should contribute to the cost of the pipeline is a matter to be decided by IPART under the Essential Water Determination, in consultation with customers, Essential Water and the NSW Government. WaterNSW anticipates that Essential Water will seek additional funding from Government to offset some or all of the cost of the pipeline.

17.2 Price setting

In setting prices at the 2022 Determination, IPART adopted price structures that it considered cost reflective. This meant IPART set access charges to recover efficient fixed costs²⁵ and usage charges to recover efficient variable costs.²⁶

We propose to retain the current pricing structure and pricing formulae from the 2022 Determination to promote the economically efficient use of the pipeline and ensure a fair sharing of risk between WaterNSW and its customers, with our major customer endorsing this position.

17.2.1 Price setting formulae

WaterNSW proposes to apply the formula for setting the maximum price that WaterNSW may levy for supplying transportation services from the 2022 Determination. That is, for Essential Water we propose to apply the pricing formula for as set out below for setting maximum prices for the 2026 Determination.

Figure 22: Proposed formula for setting the maximum price for Essential Water²⁷

Box 1 Maximum price for Essential Energy

$$MP_{EE} = AC_{EE} + (UR_{EE} \times U_{EE})$$

Where:

MP_{EE} means the maximum price that Water NSW may levy for supplying the Pipeline Service to Essential Energy for the applicable Period;

AC_{EE} means the access charge specified in Table 1 for the applicable Period;

UR_{EE} means the usage rate specified in Table 2 for the applicable Period; and

U_{EE} means the number of kilolitres of water measured by the Meter for the applicable Period.

For offtakes, WaterNSW proposes to apply the following pricing formula for setting maximum prices for the 2026 Determination. Offtakes are referred to as “Non-EE [Essential Energy] Customers” in the table below.

²⁵ 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.

²⁶ Variable costs are those that change with the amount of output (in this case the amount of water transported through the Pipeline). Usage charges are paid by customers based on the amount they consume.

²⁷ IPART *Maximum prices for water transportation services supplied by Water NSW for the Murray river to Broken Hill Pipeline - Final Determination November 2022*. Box1, Page 3.

Figure 23: Proposed formula for setting the maximum price for Offtakes²⁸

Box 2 Maximum prices for Non-EE Customers

$$MP_{NEE} = (AC_{NEE} \times O_{NEE}) + (UR_{NEE} \times U_{NEE})$$

Where:

MP_{NEE} means the maximum price that Water NSW may levy for supplying the Pipeline Service to Non-EE Customers for the applicable Period;

AC_{NEE} means the access charge specified in Table 3 for the applicable Period;

O_{NEE} means the Non-EE Customer's Number of Offtakes;

UR_{NEE} means the usage rate specified in Table 4 for the applicable Period; and

U_{NEE} means the number of kilolitres of water supplied to the Non-EE Customer for the applicable Period.

IPART's decisions on price structures from the 2022 Determination are summarised in Table 40: below.

Table 40: IPART's decisions on pricing structures from the 2022 Determination

To recover:	Essential Water pays:	Offtake customers pay:
Fixed costs	Access charge (\$/day) recovering: • Pipeline capital costs • Fixed operating costs • Fixed electricity costs (daily charge and minimum load)	Access charge (\$/day) recovering: • Incremental fixed costs of the offtake
Variable costs	Usage charge (\$/ML)	Usage charge (\$/kL) ¹¹

Source: Table 9.1 of IPART 2022 Determination

In the 2022 Determination, IPART adopted a two-part tariff for Essential Water and offtakes, with fixed costs recovered through an access charge and variable costs recovered through a usage charge.

17.2.2 Setting the fixed access charge

In the 2019 Determination, IPART set access charges for Essential Water to recover all fixed energy costs, including the fixed requirement for electricity that occurs irrespective of the volume of water pumped (discussed in section 16). IPART maintained this approach in the 2022 Determination.

In assessing how to allocate efficient fixed charges between Essential Water and offtake customers, IPART decided the following:

²⁸ IPART *Maximum prices for water transportation services supplied by Water NSW for the Murray river to Broken Hill Pipeline - Final Determination November 2022*. Box 2, page 5.

We have made a decision to allocate the efficient fixed costs between Essential Water and offtake customers on the basis of each party's contribution to the need to incur the cost of the Pipeline. The Pipeline was built (and designed) to supply Essential Water (and its customers in Broken Hill) – as reflected in Essential Water's guaranteed right to the Pipeline's transportation services, whereas offtake customers do not have such a guaranteed right.

*On this basis, under our prices, **Essential Water would pay for the fixed costs of the Pipeline; whereas offtake customers would pay the incremental fixed costs associated with their supply***(emphasis added).²⁹

17.2.3 Setting the variable usage charge

For the 2022 Determination, IPART set the Pipeline usage charge (\$/ML) as the efficient variable energy costs (\$) divided by forecast water demand (ML). Essential Water's usage price:

- set the efficient variable energy cost (\$) by calculating a weighted average benchmark energy unit cost. This approach resulted in efficient variable energy costs that IPART considered:
 - took into account the possibility of very high and very low demand years to ensure WaterNSW can recover its efficient cost on average over time
 - took into account evaporative losses (ML) occurring at the bulk water storage
 - reflected the prioritisation of off-peak energy over shoulder energy (and shoulder energy over peak energy).

17.3 Proposed pricing structures

WaterNSW proposes to retain the current pricing structures from the 2022 Determination for the 2026 Determination period as outlined in Table 41 below.

²⁹ IPART 2019 Broken Hill Pipeline Final Report, page 90.

Table 41: Proposed pricing structures

Charge	Customer	Charge Type	Consistent with existing pricing structure?
Access Charge	Essential Water	Fixed access charge , levied irrespective of water take: Recovers fixed costs of the pipeline including: internal and corporate costs, operational and maintenance costs, funding costs of the pipeline (debt & equity), forecast tax liabilities and depreciation of the pipeline, and fixed energy costs associated with the fixed energy use	✓
Usage Charge	Essential Water/Offtake customers	Usage charge levied on the volume of water take Recovers the variable cost of energy including: • Network demand costs, including fees for the network variable charge and the maximum demand charge • Wholesale energy costs • Retail costs • Costs of carbon abatement schemes • Regulatory costs/fees	✓
Offtake Charge	Offtake outlet, (levied on a per offtake basis)	Fixed Charge , levied irrespective of water take: Recovers the fixed costs of the offtake assets, including funding costs, depreciation and forecast tax liabilities associated with the delivery of offtake services.	✓

Consistent with the 2022 Determination, the majority of the revenue will be recovered through fixed charges, with a small proportion of revenue recovered through variable charges reflecting the variable cost of electricity, consistent with the principles of cost reflective pricing.

A cost reflective charging structure promotes the economically efficient use of the pipeline.

As illustrated in the following two tables, proposed fixed access charges would recover 93% of the revenue requirement, with usage charges to recover the remaining 7%, assuming 6,266 MLs of demand per annum on average.

Table 42: Access Revenue by Charge Category (\$000s, \$2025-26)

\$'000	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Pipeline						
Operating expenditure excl energy	\$3,862	\$3,711	\$4,466	\$3,996	\$3,798	\$19,832
Energy costs – fixed energy use	\$53	\$53	\$54	\$54	\$53	\$268
Return on assets	\$13,952	\$13,766	\$13,588	\$13,404	\$13,210	\$67,921
Regulatory depreciation	\$6,262	\$6,267	\$6,286	\$6,301	\$6,301	\$31,417
Working capital and tax allowances	\$791	\$824	\$855	\$888	\$917	\$4,274
Cost of debt and electricity true up	\$974	\$974	\$974	\$974	\$974	\$4,869
Total pipeline	\$25,894	\$25,595	\$26,222	\$25,617	\$25,253	\$128,580
Offtake Customers						
Return on assets	\$10	\$9	\$9	\$9	\$9	\$46
Regulatory depreciation	\$20	\$20	\$21	\$23	\$23	\$107
Working capital and tax allowances	\$2	\$2	\$2	\$2	\$3	\$11
Total offtakes	\$31	\$31	\$33	\$35	\$34	\$164
Pipeline and Offtakes						
Total fixed revenue	\$25,925	\$25,626	\$26,255	\$25,651	\$25,287	\$128,744
Fixed revenue as a % of total	93%	93%	93%	93%	93%	93%

Table 43: Usage Revenue by Charge Category (\$000s, \$2025-26)

\$'000	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water usage charge	\$1,948	\$1,933	\$1,950	\$1,948	\$1,923	\$9,703
Offtake usage charge	\$3	\$3	\$3	\$3	\$3	\$13
Total usage revenue	\$1,951	\$1,936	\$1,953	\$1,951	\$1,925	\$9,716
Usage revenue as a % of total	7%	7%	7%	7%	7%	7%

* Variable revenue based on an average usage of 6,255 ML for Essential Water and 8.5 ML per annum for paying offtake use.

18. Prices and customer bill impacts

This section provides WaterNSW's proposed prices and customer bill impacts for users of the pipeline.

Prices are calculated by applying our proposed revenue requirement (Section 15) to our forecast customer numbers and water usage (Section 16) and proposed pricing structures (Section 17).

The fixed access charges have been calculated by dividing the annual fixed costs of the pipeline by the number of days in the year. The variable usage charge has been calculated by dividing the annual variable cost of electricity by annual forecast water usage.

18.1 Proposed prices for Essential Water

Our proposed prices for Essential Water are illustrated in Table 44, based on the pricing structures outlined in Section 17.

Compared to the current prices in 2025-26 (the last year of the 2022 Determination period), we calculate the following price movements:

- the fixed access price is proposed to **increase by 5.2% per year** (plus inflation) or **28.6%** (plus inflation) by the end of the 2026 Determination period
- the variable usage price is proposed to **decrease by 6.1% per year** (plus inflation) or **-26.9%** (plus inflation) by the end of the 2026 Determination period.

Table 44: Proposed charges to Essential Water (\$2025-26)

\$2025-26	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	%Δ 2025-26 to 2030-31
Access charge (\$/day)	\$60,649.76	\$63,780.14	\$67,072.09	\$70,533.96	\$74,174.50	\$78,002.95	28.6%
Annual Change (%)		5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Usage charge (\$/ML)	\$420.00	\$311.58	\$309.15	\$311.82	\$311.32	\$307.19	-26.9%
Annual Change (%)		-25.8%	-0.8%	0.9%	-0.2%	-1.3%	-6.1%

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

18.2 Proposed prices for offtakes

WaterNSW's proposed charges for our offtakes are summarised in Table 45, based on the pricing structures outlined in Section 17.

Our approach to offtake charging maintains IPART's methodology from the 2022 Determination. This methodology was based on the number of offtakes constructed.

Table 45 - Proposed charges per offtake outlet (\$2025-26)

\$2025-26	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	%Δ 2025-26 to 2030-31
Access charge (\$/day)	\$20.21	\$20.91	\$21.64	\$22.40	\$23.18	\$23.99	18.7%
Annual Change (%)		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Usage charge (\$/kL)	\$0.42	\$0.31	\$0.31	\$0.31	\$0.31	\$0.31	-26.9%
Annual Change (%)		-25.8%	-0.8%	0.9%	-0.2%	-1.3%	-6.1%

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

** The fixed charge will be levied irrespective of water take. Price is levied for each offtake outlet, excluding the offtake subject to the land swap agreement at Balaclava consistent with the 2022 Determination.

18.2.1 Capital charge for additional offtakes

WaterNSW will offer to install additional offtakes at cost over the 2026 Determination period via the existing negotiated service agreements allowed by IPART in the current determination.

WaterNSW is mindful that the location and specifications of any new offtake must meet customers' needs, and therefore the capital cost will likely need to be negotiated.

As part of the negotiations, customers will be able to consider whether to pay the capital costs upfront, or via the annual charge or some combination of both (for example, where the capital costs for the new connection exceed those used for the regulated annual charge). WaterNSW will also charge a variable fee to represent the marginal cost of delivering water to the new offtake (cost of electricity).

Customers who pay the capital charge upfront will only be required thereafter to pay the variable charge for each ML (or kilolitre (kL) as relevant) of water ordered/delivered.

Consistent with IPART's approach on this matter in the 2022 Determination, we submit that the current arrangements for new offtake customers will continue to be subject to any unregulated pricing arrangement negotiated between the parties.

18.3 Proposed prices for shutdown, standby or restart

WaterNSW can request from the pipeline operator a cessation of the operation of the pipeline, at Essential Water's request, under certain conditions to be negotiated under the raw water supply agreement. Additional costs for placing the pipeline in shutdown mode are incurred under the O&M contract.

In our first (2019) determination, WaterNSW proposed that IPART set a maximum price for shutdown, standby and re-start charges. In opining on this matter, IPART noted the following:

- These costs are driven by Essential Water, and should be internalised by Essential Water. Essential Water should make water source decisions to achieve its water supply requirements at an efficient total cost. That is, Essential Water should choose to incur these costs if it lowered its overall total cost of supply.

- IPART did not want to set up an expectation that these costs would be automatically passed through to and recovered from Essential Water's customers.
- IPART indicated that its expenditure review consultant (Synergies) could not confirm whether the proposed shutdown and restart charges were cost reflective (i.e. Synergies considered the proposed charges could be 'punitive' rather than cost reflective).

While IPART made a decision to defer determining prices for shutdown, standby and restart services in the 2022 Determination, IPART indicated it will consider this issue for the next determination, when IPART may have more information on the likely costs of these services.

IPART indicated that WaterNSW could still levy these charges on Essential Water, as negotiated on a commercial basis between the two parties.³⁰

Consistent with IPART's approach on this matter in the 2022 Determination, WaterNSW proposes that these charges remain unregulated and instead are formed based on commercial negotiation between WaterNSW and Essential Water and charged as or when required.

18.4 Bill impacts

18.4.1 Essential Water bill impact

Table 46 below sets out WaterNSW's proposed annual bills and bill impacts for Essential Water assuming the usage volumes as set out in Section 16 that average 6,255ML over the five years of the 2026 Determination period. As illustrated below, bills are forecast to increase by **4.2% per year** (plus inflation) or a total increase over the five years of **23.0%** (plus inflation).

Table 46: Bill impact for Essential Water (\$000)

	2025-26*	2026-27	2027-28	2028-29	2029-30	2030-31	%Δ 2025-26 to 2030-31
Total Bill (\$2025-26)							
Access charge (\$)	\$22,137	\$23,280	\$24,548	\$25,745	\$27,074	\$28,471	28.6%
Usage charge (\$)	\$2,627	\$1,948	\$1,933	\$1,950	\$1,948	\$1,923	-26.8%
Total Bill (\$2025-26)	\$24,764	\$25,228	\$26,482	\$27,695	\$29,022	\$30,394	22.7%
Annual change (%)		1.9%	5.0%	4.6%	4.8%	4.7%	4.2%
Total Bill (\$2026-27)							
Total Bill (\$2026-27)**	\$24,764	\$25,959	\$27,250	\$28,498	\$29,863	\$31,275	26.3%
Annual change (%)		4.8%	5.0%	4.6%	4.8%	4.7%	4.8%

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

** Assuming CPI of 2.9% as specified by IPART. \$2026-27 information is provided at IPART's request to highlight the customer would pay in that year in nominal terms under the proposal.

³⁰ See IPART 2022 Determination, page 92.

18.4.2 Offtake bill impacts

The tables below quantify the annual bills and bill impacts for offtakes for the 2026 Determination period compared to the 2025-26 bill (the last year of the 2022 Determination period) under assumed usage of 0.5 ML (small-sized customer), 1.0 ML (medium-sized customer) and 5.0 ML (large-sized customer).³¹

For a small-sized customer, the annual bill over the period is approximately \$8,344 (\$2025-26) on average, with an annual increase of **3.3%** (plus inflation).

Table 47: Bill impact for offtake customers (\$) – Small (0.5 ML)

Small Customer (0.5 ML)	2025-26*	2026-27	2027-28	2028-29	2029-30	2030-31	%Δ 2025-26 to 2030-31
Total Bill (\$2025-26)							
Access charge (\$)	\$7,377	\$7,634	\$7,921	\$8,175	\$8,460	\$8,755	18.7%
Usage charge (\$)**	\$210	\$156	\$155	\$156	\$156	\$154	-26.9%
Total Bill (\$2025-26)	\$7,587	\$7,789	\$8,076	\$8,331	\$8,616	\$8,908	17.4%
Annual change (%)		2.7%	3.7%	3.2%	3.4%	3.4%	3.3%
Total Bill (\$2026-27)							
Total Bill (\$2026-27)**	\$7,587	\$8,015	\$8,310	\$8,574	\$8,865	\$9,166	20.8%
Annual change (%)		5.6%	3.7%	3.2%	3.4%	3.4%	3.9%

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

** Assuming CPI of 2.9% as specified by IPART. \$2026-27 information is provided at IPART's request to highlight the customer would pay in that year in nominal terms under the proposal.

^ Usage bill assumes that the usage forecast for offtake customers is split equally between all four offtake customers.

For a medium-sized customer, the annual bill over the period is approximately \$8,499 (\$2025-26) on average, with an annual increase of **3.1%** (plus inflation).

³¹ \$2025-26.

Table 48: Bill impact for offtake customers (\$) –Medium (1.0 ML)

Medium Customer (1 ML)	2025-26*	2026-27	2027-28	2028-29	2029-30	2030-31	%Δ 2025-26 to 2030-31
Total Bill (\$2025-26)							
Access charge (\$)	\$7,377	\$7,634	\$7,921	\$8,175	\$8,460	\$8,755	18.7%
Usage charge (\$)**	\$420	\$312	\$309	\$312	\$311	\$307	-26.9%
Total Bill (\$2025-26)	\$7,797	\$7,945	\$8,231	\$8,487	\$8,771	\$9,062	16.2%
Annual change (%)		1.9%	3.6%	3.1%	3.4%	3.3%	3.1%
Total Bill (\$2026-27)							
Total Bill (\$2026-27)**	\$7,797	\$8,175	\$8,469	\$8,734	\$9,026	\$9,324	19.6%
Annual change (%)		4.9%	3.6%	3.1%	3.3%	3.3%	3.6%

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

** Assuming CPI of 2.9% as specified by IPART. \$2026-27 information is provided at IPART's request to highlight the customer would pay in that year in nominal terms under the proposal.

^ Usage bill assumes that the usage forecast for offtake customers is split equally between all four offtake customers.

For a large-sized customer, the annual bill over the period is approximately \$9,740 (\$2025-26) on average, with an annual increase of **1.7%** (plus inflation).

Table 49: Bill impact for offtake customers (\$) – Large (5.0 ML)

Large Customer (5 ML)	2025-26*	2026-27	2027-28	2028-29	2029-30	2030-31	%Δ 2025-26 to 2030-31
Total Bill (\$2025-26)							
Access charge (\$)	\$7,377	\$7,634	\$7,921	\$8,175	\$8,460	\$8,755	18.7%
Usage charge (\$)**	\$2,100	\$1,558	\$1,546	\$1,559	\$1,557	\$1,536	-26.9%
Total Bill (\$2025-26)	\$9,477	\$9,192	\$9,467	\$9,734	\$10,016	\$10,291	8.6%
Annual change (%)		-3.0%	3.0%	2.8%	2.9%	2.7%	1.7%
Total Bill (\$2026-27)							
Total Bill (\$2026-27)*	\$9,477	\$9,458	\$9,741	\$10,018	\$10,307	\$10,589	11.7%
Annual change (%)		-0.2%	3.0%	2.8%	2.9%	2.7%	2.2%

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

** Assuming CPI of 2.9% as specified by IPART. \$2026-27 information is provided at IPART's request to highlight the customer would pay in that year in nominal terms under the proposal.

^ Usage bill assumes that the usage forecast for offtake customers is split equally between all four offtake customers.

18.5 Other pricing related matters

With regard to affordability concerns, on 19 April 2018 the Minister for Regional Water, with approval of the Premier, made the *Direction to the Independent Pricing and Regulatory Tribunal in relation to the construction and operation of the Broken Hill pipeline 2018* (the "Section 16A Direction").

The Section 16A Direction directed IPART, when making determinations of pricing for pipeline services, to include an amount or factor in its methodology representing the cost of complying with the Pipeline Direction and the Construction Direction. Therefore, any affordability concerns will be

addressed by IPART under the Essential Water Determination. Annual bills to Essential Water for the use of the pipeline are forecast to increase by 4.2% per year (plus inflation).

With regard to affordability concerns for offtake customers, our proposal for small offtake customers results in a 3.3% (plus inflation) annual increase in bills on average over the 2026 Determination period.

WaterNSW has left no stone unturned in seeking the lowest sustainable costs for the pipeline to do our part in keeping prices low for water users in the Broken Hill community. This includes obtaining costs from the market for the majority of the pipeline's cost through competitive tendering arrangements from the market (including for the construction costs of the pipeline and the O&M contract) and market testing for many other costs, including proposed benchmark electricity pumping costs that are proposed to reduce.

Glossary

2019 Determination	IPART Determination <i>WaterNSW Prices for water transportation services provided by the Murray River to Broken Hill Pipeline from 1 July 2019</i> , which applies from 1 July 2019 to 30 June 2022.
2022 Determination	IPART Determination <i>WaterNSW Prices for water transportation services provided by the Murray River to Broken Hill Pipeline from 1 July 2019</i> , which applies from 1 January 2023 to 30 June 2026.
ABS	Australian Bureau of Statistics
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AIR	IPART Annual Information Return
Capex	Capital Expenditure
CEO	Chief Executive Officer
Construction Direction	Direction to the Board of WaterNSW in relation to the construction of the Broken Hill pipeline 2017
CPI	Consumer Price Index
D&C	Design and construct
ESS	Energy Savings Scheme
EW	Essential Water
IPART	Independent Regulatory and Pricing Tribunal of NSW
IPART Act	<i>Independent Regulatory and Pricing Tribunal Act 1992</i> (NSW)
JHJV	John Holland Pty Ltd Joint Ventures with MPC Group Pty Ltd t/as John Holland MPC Group Joint Venture for the D&C Contract and Trility Pty Ltd t/as John Holland Trility Joint Venture for the O&M Contract
kL	Kilolitre
LRET	Large-scale Renewable Energy Target
Minimum Take	8ML in any 24-hour period
ML	Megalitre
NEM	National Electricity Market
NSW	New South Wales
O&M	Operation and maintenance
Opex	Operating Expenditure
Peak Season	December – March
Pipeline Direction	Direction to the Board of WaterNSW to secure the water supply of Broken Hill 2016
RAB	Regulated Asset Base
Ready for Water	The point at which the pipeline is able to be operated safely to deliver 8 ML of water per 24-hour period
RFT	Request for Tender

River Murray	Referring to the River Murray System / Operations as defined by the Murray Darling Basin Authority
SIR	IPART Special Information Return
SOC Act	<i>State Owned Corporations Act 1989</i> (NSW)
SPV	Special Purpose Vehicle
SRES	Small-scale Renewable Energy Scheme
WACC	Weighted Average Cost of Capital
WaterNSW Act	<i>Water NSW Act 2014</i> NSW

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