



Review of prices for WaterNSW's
Murray River to Broken Hill pipeline
services from 1 July 2026

Draft Report

March 2026

Water >>



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Image taken on Worimi Country (Myall Lakes)

The Independent Pricing and Regulatory Tribunal

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Tribunal Members

The Tribunal members for this review are:

Carmel Donnelly PSM, Chair
Dr Darryl Biggar
Jonathan Coppel
Sharon Henrick

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Invitation for submissions

IPART invites comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by Tuesday, 28 April 2026

We prefer to receive them electronically via our [online submission form](#).

You can also send comments by mail to:

Review of prices for WaterNSW's Murray River to Broken Hill pipeline services from 1 July 2026
Independent Pricing and Regulatory Tribunal
PO Box K35
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Chapter 1 >>

Report summary

01

1.1 IPART is reviewing WaterNSW's prices for the Murray River to Broken Hill Pipeline

We are reviewing the maximum prices that WaterNSW can charge for bulk water transportation services provided by the Murray River to Broken Hill Pipeline (the Pipeline) from 1 July 2026. These services comprise transporting, storing and delivering raw water from the Murray River at Wentworth to Essential Water, who treats and delivers drinking water to the households and businesses in the Broken Hill region. The Pipeline also provides raw water to several small offtake customers along the pipeline route.^a

This Draft Report sets out our draft decisions, the reasoning behind them, and what they mean for WaterNSW, Essential Water and offtake customers. As the Pipeline underpins the long-term security of Broken Hill's water supply, our role is to set prices that recover only the efficient costs of providing these services.

The efficient costs of operating, maintaining and reinvesting in the Pipeline have risen modestly as the Pipeline moves into a more typical mid-life operating phase. Our draft decisions take into account independent advice from our expert expenditure consultant, HoustonKemp. We have set draft operating and capital expenditure allowances that will enable WaterNSW to provide secure and reliable bulk water delivery at the lowest sustainable cost.

We note that the NSW Government currently provides funding to Essential Water that covers the cost of Pipeline services.

1.2 We have adopted most of WaterNSW's proposal

We consider most aspects of WaterNSW's proposal are reasonable, and have decided to:

- adopt a 5-year determination period from 2026 to 2031
- continue regulating charges using maximum prices (price caps) and maintain existing two-part tariff structures
- adopt forecast demand and customer numbers which are reflective of recent actuals
- adopt a true-up mechanism for benchmark energy costs
- continue to allow negotiated agreements for the recovery of costs associated with shutdown, standby and restart of the Pipeline, as well as for new offtake connections.

As noted below, we have made some adjustments to the allowance for efficient costs. We have also chosen not to adopt WaterNSW's proposed glide-path approach to setting target revenue and prices, preferring instead a one-off step in 2026-27 followed by inflation-only increases in access charges in each of the next 4 years. The reasons for this decision is explained in Chapter 5.

^a It is Essential Water and offtake customers, rather than WaterNSW, that hold the relevant Water Access Licences (WALs) required to extract the water that is transported via the Broken Hill Pipeline. That is, the charges we set for the bulk water transportation services provided by the Pipeline do not include the cost of licence fees associated with any WALs.

Finally, we have not adopted WaterNSW's general cost pass-through proposal. WaterNSW has proposed a similar cost pass-through mechanism in previous reviews. We have not adopted the proposed general cost pass-through on the basis that it would likely result in an inefficient transfer of risk from WaterNSW to its customers, weakening WaterNSW's incentives to manage these risks efficiently.

1.3 Our draft prices will recover the efficient costs of providing Pipeline services

Our draft prices reflect our assessment of efficient costs

Our draft decisions are to set efficient expenditure over the 2026 determination period of:

- \$19.2 million in non-energy operating expenditure
- \$9.6 million in benchmark energy costs
- \$1.4 million in efficient capital expenditure over the period.

Most operating costs relate to fixed operations and maintenance activities under the long-term contract for the Pipeline, and variable energy costs. Capital expenditure remains modest due to the relatively young age of the Pipeline, with works focused on targeted pump and motor replacements and easement-related activity.

Our draft decision on the notional revenue requirement for services to Essential Water is \$148.5 million over 5 years

Our draft decision is to set the total notional revenue requirement (NRR) for the 2026 determination period for services to Essential Water at \$148.5 million. This is:

- around 20% higher per year than in the 2022 Determination
- around 7% higher than WaterNSW's proposal.

These differences are both driven by an increase in the benchmark return on assets due to:

- a higher cost of debt over the 2022 determination period than we used to set prices at the time, which WaterNSW will be compensated for over the 2026 determination period through a cost of debt true-up
- a real post-tax weighted average cost of capital (WACC) in this draft decision of 3.6%, compared to the 3.1% used in WaterNSW's pricing proposal and the 2.8% we used to set prices in 2022.

For offtake customers, the NRR is \$0.2 million over the 2026 determination period, closely aligned with WaterNSW's proposal.

In setting the NRR, we have applied an energy cost true-up for the 2022 determination period that results in the return of \$0.65 million to Essential Water over the 2026 determination period through a lower NRR and lower prices. This is a result of the outturn benchmark energy costs over the 2022 determination period being lower than that which we used to set prices in 2022.

1.4 Our draft maximum prices and bill impacts

Essential Water

Under our draft decisions, Essential Water's:

- access charge increases by 25.7% plus inflation in 2026–27, then increases by inflation only in each of the next 4 years
- usage charge decreases by 28.8% plus inflation in 2026-27
- total bill will increase by around 20% plus inflation in 2026-27.

Offtake customers

For offtake customers, our draft decisions will:

- increase access charges by 12.3% plus inflation in 2026-27
- decrease usage charges by 28.2% plus inflation in 2026-27
- result in bills increasing by between 3.4% and 11.2% plus inflation in 2026-27 depending on water usage.

1.5 We have considered stakeholder feedback

IPART invited stakeholders to have their say through several avenues, including:

1. making a formal submission on our Issues Paper
2. responding to an online survey
3. attending a public hearing in Broken Hill.

Stakeholder feedback overwhelmingly focused on Essential Water's pricing proposal for Broken Hill, while we received limited feedback on WaterNSW's Pipeline proposal.

The more limited feedback on the Pipeline proposal may be because the subsidy that continues to be provided by the NSW Government to Essential Water covers the costs of the Pipeline services. Effectively, there is no impact on end users' bills from the supply of water to Essential Water via the Pipeline.

The key issue raised in the feedback we received on the Pipeline proposal was concern about uncertainty over the ongoing Pipeline subsidy and the potential implications for end user bills if it was reduced or withdrawn.

We value the feedback that stakeholders have provided, and we have considered all views in reaching the draft decisions set out in this report, noting that our role is to set efficient prices independent of any future government subsidy decisions. Chapter 2 summarises what we have heard from stakeholders so far in our review.

1.6 We have considered a range of matters in determining draft maximum prices

We have had regard to the considerations in sections 14A(2) and 15(1) of the Independent Pricing and Regulatory Tribunal Act 1992 (the 'IPART Act') when making our draft decisions on WaterNSW's maximum prices for Pipeline services. Those considerations include, but are not limited to:

- WaterNSW's actual and benchmark efficient costs of providing Pipeline services
- need to protect WaterNSW's customers from abuses of monopoly power
- need for WaterNSW to be more efficient and minimise costs for the benefit of its customers
- need for ecologically sustainable development
- standards of quality, reliability and safety.

This report explains how we considered and carefully balanced these matters in reaching our draft decisions for WaterNSW's expenditure allowances and charges for Pipeline services. A summary and index of how we considered the matters in section 14A(2) and section 15(1) of the IPART Act is set out in Appendix A.

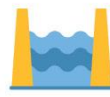
Matters for IPART to consider when setting water prices



What are the costs?



Are customers protected from abuses of monopoly power?



Is there an appropriate return on assets for the water business?



What is the effect on general price inflation?



Do the prices promote greater efficiency?



Do the prices promote ecologically sustainable development?



What is the impact of the prices on the finances and assets of the water business?



What is the impact of the prices on third party contracts of the water business?



Do the prices promote competition?



What is the impact of the prices on demand management and least cost planning?




What are the social impacts of the prices?



What is the impact of the prices on quality, reliability and safety standards?

1.7 We want to hear your views on our draft decisions

Your input is valuable to us as we undertake this price review. We are now seeking feedback on our draft decisions. To have your say, you can provide a submission on this Draft Report by 28 April 2026.

 **Have your say**

Your input is critical to our review process. [Submit feedback >>](#)

You can get involved by making a submission to our price review. We are seeking feedback by **28 April 2026** on our draft decisions.

Figure 1.1 shows our review timeline.

We will consider all stakeholder and customer feedback, as well as input from our independent experts and our own analysis, before publishing our Final Report with our final decisions in May 2026.

Figure 1.1 Timeline for our review



1.8 List of draft decisions

1.	To adopt WaterNSW's historical capital expenditure for 2021–22 and 2022–26 as prudent and efficient, as shown in Table 3.1.	22
2.	To adopt WaterNSW's forecast capital expenditure for 2026–31 as prudent and efficient, as shown in Table 3.2.	22
3.	To set WaterNSW's total non-energy operating expenditure allowance to \$19.2 million over the 2026–31 period, as shown in Table 3.3.	26
4.	To set WaterNSW's total energy expenditure allowances over the 2026–31 period as shown in Table 3.13, to around:	40
a.	\$9.6 million for services to Essential Water	40

b.	\$12,800 for services to Offtake customers.	40
5.	To adopt an energy cost true-up mechanism for both the 2022 and 2026 determination periods, covering benchmark wholesale, network and renewable energy policy (environmental) cost components of the energy price.	40
6.	To apply the energy cost true-up for the 2022 determination period, resulting in an estimated over recovery of around \$0.57 million in present value terms that will be returned to customers over 2026-31.	40
7.	To set the notional revenue requirement for services to Essential Water at \$148.5 million over the 2026 determination period as shown in Table 4.1.	48
8.	To set the notional revenue requirement for services to offtake customers at \$0.2 million over the 2026 determination period as shown in Table 4.2.	48
9.	To calculate the RAB for 2022-23 to 2030-31 by using:	51
a.	a 2022-23 opening RAB of \$417.5 million. The RAB for each year is shown in Table 4.3 and Table 4.4	51
b.	\$0.7 million (nominal) of prudent and efficient historical capital expenditure added to the RAB over the 2022 determination period (Chapter 3)	51
c.	forecast capital expenditure added to the RAB over the 2026 determination period of \$1.3 million (Chapter 3)	51
d.	asset disposals and cash capital contributions of zero.	51
10.	To calculate the RAB for 2019-20 to 2025-26 by using:	51
a.	2022-23 opening RAB of \$0.3 million. The RAB for each year is shown in Table 4.5 and Table 4.6.	51
b.	\$4,000 (nominal) of prudent and efficient historical capital expenditure added to the RAB over the 2022 determination period (Chapter 3)	51
c.	forecast capital expenditure added to the RAB over the 2026 determination period of \$43,000 (Chapter 3)	51
d.	asset disposals and cash capital contributions of zero.	51
11.	To calculate the allowance for return of assets (regulatory depreciation), using:	55
a.	a straight-line depreciation method	55
b.	for existing assets, the rolled forward asset lives from the 2022 determination period as listed in Table 4.7	55
c.	for new assets, the asset lives listed in Table 4.7.	55
12.	For services to Essential Water, to set the allowance for return of assets at \$30.7 million over the 2026 determination period as shown in Table 4.8.	55
13.	For services to offtake customers, to set the allowance for return of assets at \$0.1 million over the 2026 determination period as shown in Table 4.8.	55
14.	For services to Essential Water, to set an allowance for return on assets of \$78.8 million over the 2026 determination period (shown in Table 4.9). This is calculated by using:	57
a.	the RAB values shown in Table 4.4	57
b.	a real post-tax WACC of 3.6%.	57
15.	For services to offtake customers, to set an allowance for return on assets of \$0.1 million over the 2026 determination period (shown in Table 4.9). This is calculated by using:	57
a.	the RAB values shown in Table 4.6	57
b.	a real post-tax WACC of 3.6%.	57

16.	To set a true-up for differences between the forecast and actual cost of debt over the 2022 determination period of:	58
	a. \$5.7 million for services to Essential Water	58
	b. zero for services to offtake customers.	58
17.	To set a true-up for differences between the forecast and outturn benchmark energy costs over the 2022 determination period of:	59
	a. -\$0.65 million for services to Essential Water	59
	b. zero for services to offtake customers.	59
18.	To set the return on working capital for services to Essential Water and offtake customers for the 2026 determination period as shown in Table 4.10.	60
19.	To adopt the regulatory tax allowance for services to Essential Water and offtake customers as shown in Table 4.11 using:	61
	a. a tax rate of 30%	61
	b. IPART's standard methodology.	61
20.	To set a 5-year determination period for the Pipeline for 2026-31.	65
21.	To continue regulating prices using maximum prices (price caps) for the 2026 determination period.	65
22.	To adopt WaterNSW proposal of no change in customer numbers for the 2026 determination period.	66
23.	To adopt WaterNSW's proposed demand volumes for sales to Essential Water and offtake customers for the 2026 determination period, as in Table 5.1.	67
24.	To maintain the two-part tariff structures introduced in 2022 for Essential Water and offtake customers, as in Table 5.2.	68
25.	To adopt a one-off step change in target revenue and access charges, rather than a glide path as proposed by WaterNSW.	70
26.	To set access and usage charges for Pipeline services to Essential Water set out in Table 5.3.	71
27.	To set access and usage charges for Pipeline services to offtake customers as set out in Table 5.4.	71
28.	To continue to defer regulation of charges for the recovery of costs associated with shutdown, standby and restart of the Pipeline.	72
29.	To continue to defer regulation of capital charges for additional offtakes, and allow WaterNSW to continue offering additional offtakes at cost under negotiated agreements.	74
30.	To adopt WaterNSW's proposed performance outcomes.	79
31.	To propose performance measures and targets as shown in Table 6.1.	79
32.	To grade WaterNSW's pricing proposal as Standard.	97

1.9 Tell us what you think

Seek Comment from stakeholders

1.	Do you prefer a one-off step change to prices in 2026-27 (plus inflation), or smaller increases (plus inflation) in each of the 5 years of the determination period?	70
2.	What are your views on our draft decisions on access charges and usage charges?	72
3.	Does Essential Water support IPART's draft decision to continue to defer regulation of charges for the recovery of costs associated with shutdown, standby and restart of the Pipeline?	73
4.	Do stakeholders support IPART's draft decision to continue to defer regulation of capital charges for additional offtakes, and allow WaterNSW to continue offering additional offtakes at cost under negotiated agreements?	74
5.	What are the impacts on Essential Water, its customers and the NSW Government of the draft bills for Essential Water?	75
6.	Are the draft bills we propose for offtake customers affordable?	77
7.	What are your views on WaterNSW's proposed performance metrics? Could these be improved?	84
8.	What are your views on IPART publishing performance results in an online dashboard?	86

Seek Comment from WaterNSW

1.	What is WaterNSW's updated forecast for insurance contributions spend for the Pipeline in 2025-26?	30
2.	What is WaterNSW's updated icare insurance contributions forecast for the 2026 determination period?	30

Chapter 2 >>

What we heard from stakeholders

02

Summary of what we heard from stakeholders

Stakeholder feedback on the Pipeline proposal centred on the role of the NSW Government subsidy

Stakeholders provided limited feedback on WaterNSW's pricing proposal. This may be due to the subsidy that continues to be provided by the NSW Government to Essential Water to cover the costs of the Pipeline services. The subsidy effectively means there is no impact on end users' bills from the supply of water to Essential Water via the Pipeline.

The key issue raised in the feedback we received on the Pipeline proposal was concern about uncertainty over the ongoing Pipeline subsidy and the potential implications for end user bills if it was reduced or withdrawn.

2.1 We consulted with stakeholders to inform our draft decisions

On 28 October 2025 we published an [Issues Paper](#) on the 2025 pricing proposals for Essential Water and the WaterNSW Pipeline, along with a call for submissions to our review. This included how WaterNSW has engaged with and understood its customers and community, its proposed service levels, customer outcomes, and the subsidies covering the costs of the Pipeline.

We invited stakeholders to have their say through a formal submission on our Issues Paper, responding to an online survey, and attending a public hearing in Broken Hill. These activities covered the reviews of both Essential Water and the WaterNSW Pipeline.

We thank all stakeholders for their time and effort spent to provide us with feedback through these avenues. We considered all feedback received to inform the analysis and draft decisions on WaterNSW's prices for the Pipeline and Essential Water's prices.



2.1.1 We received limited responses regarding WaterNSW's pricing proposal

Stakeholder feedback overwhelmingly focused on Essential Water's pricing proposal. WaterNSW's Pipeline prices have to date had limited impact on end users in Broken Hill as the costs of the Pipeline have been fully covered by a subsidy from the NSW Government. End users provided feedback exclusively concerning potential impacts on bills flowing through Essential Water if the NSW Government were to wind back subsidies.

Essential Water made a submission stating that, as WaterNSW's primary customer, it was satisfied by WaterNSW's consultation process. Essential Water's submission also stated that it broadly saw WaterNSW's capital and operating expenditure programs as being justified and appropriate.¹

In its pricing proposal, WaterNSW submitted that offtake customers reported being satisfied with current arrangements.²

2.1.2 Stakeholders want longer-term subsidy commitment for the Pipeline

Stakeholders expressed concern at the lack of an ongoing commitment on the Pipeline subsidy by the NSW Government. In its submission to our Issues Paper, Foundation Broken Hill Limited (FBHL) noted that NSW Government funding has been extended periodically rather than being provided through a permanent arrangement. FBHL stated that "periodic arrangements create constant uncertainty". Stakeholders at our public hearing also mirrored this sentiment.³

Essential Water's pricing proposal noted "that the NSW Government indicated it was appropriate to assume a continuation of the affordability subsidy," but Essential Water "would welcome a longer-term commitment to this subsidy to give a greater level of assurance to" customers and the community.⁴

Stakeholders were concerned at the possibility in the future that a reduced or removed subsidy would dramatically increase water prices in Broken Hill. Submissions on our Issues Paper, as well as survey responses and public hearing comments also expressed a view that the Pipeline was built for the benefit of the cotton industry rather than the residents of Broken Hill. Stakeholders commented that the "cost or any increased costs of running ... the pipeline" should be borne by the cotton industry.⁵

2.2 We have considered all stakeholder feedback

Consultation with the community is an important part of our water pricing review process. We have considered all feedback provided on WaterNSW's proposed prices in making our draft decisions on maximum prices to apply from 1 July 2026.

The following chapters explain our draft decisions including our considerations of stakeholder feedback.

Chapter 3 »

Expenditure

03

Summary of our draft decisions on expenditure

WaterNSW's historical capital expenditure is efficient

We have accepted WaterNSW's historical capital expenditure from 2021–22 to 2025–26, totalling \$1.04 million, as prudent and efficient, with expenditure in all categories remaining largely at or below the allowances previously set by IPART.

WaterNSW's proposed capital expenditure over the 2026 determination period is efficient

We have accepted WaterNSW's proposed capital expenditure over the 2026 determination period as prudent and efficient. Proposed expenditure is modest, reflecting the relatively young age of the Pipeline assets and the limited replacement needs at this stage of the asset lifecycle. The expenditure consists of:

- asset replacement for Essential Water and offtake customers (around \$1.1 million)
- easement and access right administration costs associated with securing access across Crown land and Native Title parcels (around \$0.23 million).

WaterNSW's efficient operating expenditure (excluding energy) is \$19.2 million over the 2026 determination period

We have set WaterNSW's efficient operating expenditure (excluding electricity) at around \$19.2 million over the 2026 determination period (around 3.3% below WaterNSW's proposal). We accepted WaterNSW's base year, but made targeted adjustments to some trend and step components while maintaining the proposed 1% ongoing efficiency target on Special Purpose Vehicle (SPV)^a support costs.

We have set WaterNSW's energy expenditure to \$9.6 million over the 2026 determination period

We have set the efficient benchmark electricity expenditure at around \$9.6 million over the 2026 determination period (about 3.7% below WaterNSW's proposal), reflecting HoustonKemp's recommended adjustments to energy consumption and updates to input prices. We have also accepted WaterNSW's proposal for an energy cost true-up mechanism for both the 2022 and 2026 determination periods. Applying the true-up over the 2022 determination period indicates an over-recovery that will return around \$0.65 million to customers over the 2026 determination period.

This chapter sets out our draft decisions on WaterNSW's expenditure for the Pipeline for the 2026 determination period. It explains how we assessed WaterNSW's proposed capital and operating expenditure, drawing on advice from our expenditure consultants (HoustonKemp) where relevant.

^a The Special Purpose Vehicle (SPV) is a wholly owned subsidiary of WaterNSW that was established to construct, operate and maintain the pipeline.

Our draft decisions on expenditure consider the matters set out in sections 14A(2) and 15(1) of the IPART Act. This includes setting expenditure allowances that would enable WaterNSW to recover the efficient costs of delivering the required standard of services, including earning an appropriate return on assets, while protecting customers from abuses of monopoly power. The expenditure allowances in this draft decision, alongside our broader regulatory framework, seek to encourage WaterNSW to contain costs and strive for more cost-efficient outcomes for the benefit of its customers.

3.1 Summary of our draft decisions on capital expenditure

Our draft decision is to adopt WaterNSW's proposed capital expenditure of \$1.4 million (\$2025-26) over the 2026 determination period as we consider this prudent and efficient. This reflects the relatively young age of the Pipeline assets and the limited replacement needs at this stage of the asset lifecycle.

The proposed capital expenditure consists of:⁶

- asset replacement for Essential Water and offtake customers (around \$1.1 million)
- easement and access right administration costs associated with securing access across Crown land and Native Title parcels (around \$0.23 million).

We consider WaterNSW's historical capital expenditure from 2021-22 to 2025-26 to be efficient, with actual expenditure largely at or below levels previously accepted as prudent and efficient.⁷

Our draft decisions are:

1. To adopt WaterNSW's historical capital expenditure for 2021-22 and 2022-26 as prudent and efficient, as shown in Table 3.1.
2. To adopt WaterNSW's forecast capital expenditure for 2026-31 as prudent and efficient, as shown in Table 3.2.

Table 3.1 Draft decision on historical capital expenditure (\$'000, \$2025-26)

	2021-22	2022-23	2023-24	2024-25	2025-26 ^a	Total 2021-26
Essential Water						
IPART allowance	1,846.4	0.0	0.0	0.0	0.0	1,846.4
Actual capital expenditure	341.6	46.9	201.8	220.8	224.7	1,035.7
IPART Draft Decision	341.6	46.9	201.8	220.8	224.7	1,035.7
Offtakes						
IPART allowance	0.0	1.1	0.3	2.9	7.4	11.6
Actual capital expenditure	0.3	1.1	0.3	3.0	0.0	4.8
IPART Draft Decision	0.3	1.1	0.3	3.0	0.0	4.8

a. Expenditure in 2025-26 is forecast.

Source: WaterNSW, [Pricing proposal to the Independent Pricing and Regulatory Tribunal](#) | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, September 2025, pp 71-75; WaterNSW, [Pricing proposal to the Independent Pricing and Regulatory Tribunal – Annual Information Return/Special Information Return](#), September 2025; and IPART analysis.

Table 3.2 Draft decision on forecast capital expenditure (\$'000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total 2026-31
Essential Water						
WaterNSW proposed	260.7	286.8	775.6	11.2	43.1	1,377.4
IPART Draft Decision	260.7	286.8	775.6	11.2	43.1	1,377.4
Offtakes						
WaterNSW proposed	0.0	9.3	33.2	0.0	0.0	42.5
IPART Draft Decision	0.0	9.3	33.2	0.0	0.0	42.5

Source: WaterNSW, [Pricing proposal to the Independent Pricing and Regulatory Tribunal](#) | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, September 2025, pp 71-75; WaterNSW, [Pricing proposal to the Independent Pricing and Regulatory Tribunal - Annual Information Return/Special Information Return](#), September 2025; and IPART analysis.

3.2 We have adopted WaterNSW's historical capital expenditure

In order to calculate the opening value of the regulatory asset base (RAB), we first need to make adjustments to reflect actual efficient capital expenditure incurred since the last review in 2022, where expenditure from the last year of the 2019 determination period (ie, 2021-22) and expenditure for the 2022 determination period were forecasts at the time.

3.2.1 Capital expenditure in 2021-22

In 2021-22, WaterNSW's actual capital expenditure was at or below IPART's allowances for the land swap agreement, Wentworth Ski Park Reserve rehabilitation, and land easement-related expenditure.⁸ Given that expenditure did not exceed amounts previously accepted as prudent and efficient, we have adopted WaterNSW's 2021-22 actual capital expenditure.

3.2.2 Capital expenditure from 2022-23 to 2025-26

In our 2022 Determination we set a small allowance for minor offtake works for 2022-23 to 2025-26.⁹ Over the period, WaterNSW reports:¹⁰

- approximately \$4,800 in capitalised works on the four offtake connections, around 61% below the allowance^b
- approximately \$0.7 million in land easement acquisition expenditure.

Our draft decision is to adopt these expenditures as prudent and efficient. WaterNSW's expenditure on offtake assets is materially below the allowance, and its expenditure on easement acquisition to date remains below level of land access costs previously accepted by the Tribunal as efficient and necessary for pipeline operations.

^b Reported by WaterNSW as \$4,500 in nominal terms, which converts to \$4,800 in \$2025-26 terms.

3.3 We have adopted WaterNSW's proposed capital expenditure

3.3.1 Overview of WaterNSW's proposal

WaterNSW proposes capital expenditure of approximately \$1.4 million for the 2026 determination period. The increase relative to the current period reflects the commencement of a more standard asset replacement cycle as the Pipeline approaches 10 years of operation, but expenditure remains small in absolute terms. Key components are:¹¹

- around \$1.1 million in asset replacement for Essential Water and offtake customers
- around \$0.23 million in administrative costs to secure access rights over 17 Crown land and Native Title parcels.

WaterNSW has not forecast the actual easement acquisition costs due to uncertainty around terms and timing. It proposes that actual expenditure be recovered through a true up at the next price review.

3.3.2 Asset replacement capital expenditure

WaterNSW proposes approximately \$1.1 million in asset replacement over the 5 years of the 2026 determination period. The pipeline remains relatively new, but updated condition and performance information from the operations and maintenance contractor (John Holland/Trility Joint Venture) indicates that some pump and motor replacements should occur earlier than initially forecast. WaterNSW estimates that around \$0.29 million^c in works has been brought forward to the upcoming period.¹²

We consider this expenditure prudent and efficient. HoustonKemp's independent analysis confirms that the proposed asset replacement program:¹³

- reflects updated asset condition and reliability requirements
- is consistent with customer preferences
- is modest relative to the size of the regulatory asset base.

We also note previous reviews of the design, construction and operations and maintenance contracts for the Pipeline have found these arrangements to be prudent and aligned with good practice.¹⁴ This further supports the efficiency of the proposed asset replacement program.

Based on the evidence available, including HoustonKemp's analysis, our draft decision is to adopt WaterNSW's proposed asset replacement expenditure for the 2026 determination period.

^c Reported by WaterNSW as \$220k in \$2016 terms, which converts to \$295k in \$2025-26 terms.

3.3.3 Easement related capital expenditure

Negotiations about access across Crown Land and Native Title parcels is important to enable ongoing operation of the pipeline. WaterNSW proposes approximately \$0.23 million in administrative costs for these processes, including participation funding for the Barkandji Native Title Group and capitalised overheads associated with the negotiation processes. These costs do not include any amount for the cost of the easement acquisitions themselves.¹⁵

We consider the proposed administrative costs reasonable. In forming this view, we have drawn on the analysis of HoustonKemp, who found both the magnitude and nature of these costs to be consistent with established regulatory practice, including allowances for early works and community engagement costs in comparable sectors.¹⁶

On the basis that WaterNSW did not include proposed costs for the easement acquisitions themselves, it is also proposing a true-up of actual easement acquisition costs at the next price review. It is proposing that easement acquisition costs and associated holding costs to be rolled into the RAB at that point, subject to IPART's review of the prudence and efficiency of the expenditure.

At this stage, we consider that per standard practice, all capital expenditure, including easement acquisition costs should be considered as part of a potential ex-post capital expenditure assessment at the next price review.

We note that our expenditure consultants in the 2022 review commented that the documentation to support review of land acquisition costs was poor.¹⁷ We expect WaterNSW to maintain clear documentation not only of the final outcomes, but also of the process undertaken.

3.4 Operating expenditure excluding energy

3.4.1 Summary of our draft decisions

Our draft decision is to set WaterNSW's efficient operating expenditure allowance for the Broken Hill Pipeline, excluding electricity costs, at around \$19.2 million (\$2025-26) over the 2026 determination period. This is around 3.3% lower than WaterNSW's proposed non-energy operating expenditure of about \$19.8 million and reflects targeted adjustments to some of the proposed trend and step components.

We have:

- adopted WaterNSW's chosen 2024-25 base year and its adjustments to remove non-recurrent regulatory submission costs and non-controllable electricity costs
- accepted the overall Base-Trend-Step (BTS) structure of WaterNSW's proposal
- made adjustments to:
 - the trend in insurance premiums, to align with WaterNSW provided information on NSW Treasury Managed Fund (TMF) contributions
 - the treatment of audit fees and travel costs, given their immateriality
 - SPV contract management costs, reflecting WaterNSW's statements that these expenditures should be lower over 2026-31

- regulatory submission and implementation costs, to keep them closer to benchmarks from the current determination period
- the profile of efficiency savings reflecting our adjustments to SPV contract management costs, while maintaining WaterNSW's proposed ongoing 1% cumulative efficiency target on SPV support costs.

HoustonKemp's advice to us is that WaterNSW's proposed non-energy operating expenditure is reasonable overall and consistent with efficient operation of the Pipeline.¹⁸ We have largely accepted this analysis, while applying our own judgements on a small number of components that affect the level and profile of efficient costs.

Table 3.3 sets out our adjustments to WaterNSW's proposed non-energy operating expenditure and our draft decision.

Table 3.3 Draft decision on non-energy operating expenditure (\$'000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
WaterNSW proposal						
Total before efficiency adjustment	3,862	3,711	4,466	3,996	3,798	19,832
IPART adjustments						
Audit fees	-2	-2	-2	-2	-2	-10
Insurance	-34	-34	-33	-33	-32	-165
Regulatory submission costs	0	0	0	-46	-39	-85
SPV contract management costs	-14	-15	-17	-18	-19	-83
Travel cost	4	4	4	4	3	18
Efficiency adjustments						
Annual efficiency	-35	-48	-67	-86	-86	-322
Draft decision on efficient operating expenditure						
Total operating expenditure	3,780.2	3,616	4,351	3,815	3,623	19,184
<i>Difference from proposed (\$)</i>	<i>-82</i>	<i>-95</i>	<i>-115</i>	<i>-181</i>	<i>-174</i>	<i>-648</i>
<i>Difference from proposed (%)</i>	<i>-2.1%</i>	<i>-2.6%</i>	<i>-2.6%</i>	<i>-4.5%</i>	<i>-4.6%</i>	<i>-3.3%</i>

Source: WaterNSW, [Pricing proposal to the Independent Pricing and Regulatory Tribunal](#) | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, September 2025, pp 50-54; and IPART analysis.

Our draft decision is:



- To set WaterNSW's total non-energy operating expenditure allowance to \$19.2 million over the 2026-31 period, as shown in Table 3.3.

3.4.2 WaterNSW's proposal

WaterNSW's operating expenditure forecasts for the 2026 determination period largely follows IPART's Base-Trend-Step (BTS) approach under the [IPART Water Regulation Handbook](#).

WaterNSW proposes total operating expenditure (including electricity) of around \$6.0 million per year, of which about:¹⁹

- \$2.1 million relates to fixed operations and maintenance under the contract with the John Holland Trility Joint Venture (JHTJV)
- \$0.2 million relates to asset refurbishment
- \$1.2 million relates to SPV overheads allocated under WaterNSW's Cost Allocation Manual (CAM)
- \$0.5 million relates to regulatory submission and reporting costs, audits, insurance, land tax, and other administrative costs
- \$2.0 million relates to benchmark electricity costs, which are excluded from the BTS analysis of controllable operating expenditure.

WaterNSW's proposed non-energy operating expenditure totals around \$19.8 million over 2026-31 (about \$4.0 million per year).

WaterNSW's BTS operating expenditure proposal is presented in Table 3.4.

Table 3.4 WaterNSW proposed BTS operating expenditure forecast (\$'000, \$2025-26)

	2024-25 Actual Nominal	2025-26 ^a \$2025-26	2026-27 \$2025-26	2027-28 \$2025-26	2028-29 \$2025-26	2029-30 \$2025-26	2029-31 \$2025-26	Average \$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

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

Source: WaterNSW, *Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, Attachment 8 – Base Trend Step operating expenditure*, September 2025, p 5.

3.4.3 Our assessment of the base year

WaterNSW has used 2024–25 as the base year for its BTS analysis, consistent with the [IPART Water Regulation Handbook](#) guidance that the efficient base year should be the penultimate year of the determination period. The reported operating costs for the Pipeline in 2024–25 are \$5.3 million (\$2024-25), including direct costs and overheads.²⁰

WaterNSW has made two adjustments to derive the efficient base year:²¹

- **Regulatory submission costs** – removal of \$0.3 million (\$2024-25) of non-recurrent costs relating to the preparation of this pricing proposal, including consultant support for energy cost forecasting and quality assurance.
- **Electricity costs** – removal of \$1.8 million (\$2024-25) of actual electricity expenditure, given that energy is treated separately through benchmark costs and a true up mechanism.

These adjustments result in an **adjusted base** of \$3.2 million (\$2024-25) for 2024–25.

The adjustments are consistent with the IPART Water Regulation Handbook and our general practice of excluding non-recurrent and non-controllable costs from the BTS base. HoustonKemp's analysis supports the use of 2024–25 as the base year with the proposed adjustments.²²

Our draft decision adopts WaterNSW's base year operating expenditure and base year adjustments.

3.4.4 Our assessment of trend components

WaterNSW proposes trend adjustments for audit fees, insurance premiums, one year of inflation escalation of operations and maintenance (O&M) contract costs from \$2024-25 to \$2025-26, and an ongoing efficiency factor applied to SPV support costs. WaterNSW's proposed trend adjustments are shown in Table 3.5.

Table 3.5 WaterNSW proposed operating expenditure Trend adjustments (\$'000, \$2025-26)

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

Source: WaterNSW, *Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, Attachment 8 – Base Trend Step operating expenditure*, September 2025, p 7.

Audit fees

WaterNSW proposes a small real increase in annual audit fees (about \$2,000 per year).²³

We consider this increase immaterial in the context of total operating expenditure and note that WaterNSW has not demonstrated why the base plus general cost movements would be insufficient to cover audit costs. In line with our expectations under IPART's [Water Regulation Handbook](#) that immaterial variations should generally be managed within the base, our draft decision is to **not** provide a specific trend uplift for audit fees. We instead maintain audit expenditure at the efficient base year level in real terms.

Insurance premiums

WaterNSW is required to obtain insurance cover through the NSW Treasury Managed Fund (TMF), administered by icare, and has proposed a real annual increase in insurance premiums based on icare's forecast compound annual growth rate (CAGR) of 8.9% nominal between 2024–25 and 2030–31, converted to a 6.6% real increase using an inflation assumption of 2.1%.²⁴

We consider the use of TMF/icare information appropriate for establishing efficient insurance costs. WaterNSW has provided IPART with insurance contributions forecasts that suggest a reduced growth in insurance spend than that put forward by WaterNSW in its proposal. WaterNSW proposed a real increase in insurance spend between 2024–25 and 2025–26 of 24%, while the icare forecasts suggest a nominal increase of only 0.1%, which converts to a real decrease of -2.5%.²⁵

We note that WaterNSW's inflation of 2.1% differs significantly from observed and our mid-range inflation forecast assumptions, set out in Table 3.6 below.

Overall, when we update the insurance growth forecast to align with the icare forecasts and apply our inflation assumptions, insurance spend is expected to grow by an annual average growth rate of 2.8% per year from the base year (2024–25) base before inflation, compared with 5.9% per year under WaterNSW's proposal (after aligning inflation assumptions).

Table 3.6 sets out WaterNSW's proposal, the forecast growth rates indicated by the icare advice, and our draft decision based on the icare forecast.

Seek Comment from WaterNSW



1. What is WaterNSW's updated forecast for insurance contributions spend for the Pipeline in 2025-26?
2. What is WaterNSW's updated icare insurance contributions forecast for the 2026 determination period?

Table 3.6 WaterNSW proposed insurance spend and IPART draft decision (\$'000, \$2025-26)

	2024-25 (Base year)	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2026-31 Total Average	2026-31
IPART inflation assumptions	2.1%	2.7%	2.5%	2.5%	2.5%	2.5%	2.5%		
WaterNSW proposed									
Base year actual spend (\$nominal)	136.9								
Base year actual spend (\$2025-26)	140.6								
Forecast annual spend		174.2	179.4	186.3	189.9	193.5	198.0	947.1	
Proposed trend increase from nominal base year		37.4	42.5	49.5	53.0	56.6	61.1		52.5
Real % change		24.0%	3.0%	3.9%	1.9%	1.9%	2.3%		5.9%^a
icare advice									
Nominal % change		0.1%	9.0%	7.4%	5.3%	5.2%	5.5%		5.4%^a
Real % change		-2.5%	6.4%	4.7%	2.8%	2.6%	2.9%		2.8%^a
IPART draft decision									
Annual insurance allowance		[137.0] ^b	145.8	152.7	156.9	161.0	165.7		782.1
Trend increase from nominal base year			8.9	15.8	20.0	24.1	28.9		19.5
Real % change (same as icare advice)		-2.5%	6.4%	4.7%	2.8%	2.6%	2.9%		2.8%^a
<i>Draft decision vs WaterNSW proposed (\$)</i>			-33.6	-33.7	-33.0	-32.5	-32.2		-165.0
<i>Draft decision vs WaterNSW proposed (%)</i>			-18.8%	-18.1%	-17.4%	-16.8%	-16.3%		-17.4%

a. The compound annual growth rate (CAGR) is the constant annual percentage rate at which a value grows to reach its final amount from its starting point, assuming that the growth compounds each year.

b. While we have recalculated expected insurance spend in 2025-26 based on the provided icare forecasts, this is included here for illustrative purposes only. The operating expenditure allowance for 2025-26 was set in our 2022 Determination, and we are not revisiting that decision as part of this review.

Source: WaterNSW, *Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, Attachment 8 – Base Trend Step operating expenditure*, September 2025, pp 7-8; icare WaterNSW FY25-31 Insurance Premiums Contribution Forecast [Confidential]; icare WaterNSW FY25-32 Insurance Premiums Contribution Forecast [Confidential]; and IPART analysis.

O&M contracts – inflation uplift

WaterNSW has applied an inflation rate of 2.7% to escalate \$2024–25 O&M contract costs to \$2025-26, consistent with IPART's inflation assumptions for that year.²⁶

We consider this approach reasonable. This is consistent with HoustonKemp's assessment, which found the inflation component of O&M contract escalation to be appropriate.²⁷

Our draft decision is to adopt the proposed O&M inflation trend component.

Efficiencies built into the proposal

WaterNSW has adopted its corporate efficiency strategy for the Pipeline, proposing a 1% per annum cumulative efficiency target on SPV support operating expenditures, for a total proposed efficiency saving of \$0.33 million over 2026–31.²⁸

WaterNSW has noted that there is limited scope for an ongoing efficiency factor on certain components of its operating expenditure, i.e. that O&M costs are:²⁹

...established by reference to long term contracts that have previously been reviewed by IPART.

WaterNSW's proposed ongoing efficiency factor is therefore applied to operating expenditure that supports SPV operations, i.e. contract management costs and corporate overheads.

HoustonKemp considers the proposed 1% ongoing efficiency factor is reasonable and realistic, noting that this is higher than both:³⁰

- the 0.7% efficiency factor we set for the Pipeline for the 2023-26 period
- the 0.9% ongoing efficiency factor adopted for Hunter Water for its 2025-30 determination period.

HoustonKemp also highlights that WaterNSW's broader organisational efficiency strategy involves the 1% cumulative efficiency improvements commencing in 2024-25.³¹

We agree that the application of a 1% cumulative efficiency factor to SPV support costs is appropriate and consistent with our broader efficiency expectations.

However, as we have adjusted the SPV contract expenditure (see section 3.4.5), we have recalculated the efficiency savings, adopting a 1% cumulative efficiency factor commencing in 2024-25. WaterNSW's proposal and IPART's draft decision are shown in Table 3.7.

Table 3.7 Proposed vs draft decision on efficiency savings (\$'000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
WaterNSW proposal						
SPV support costs	1,206	1,227	1,389	1,494	1,280	6,596
Efficiency savings (\$)	-33	-48	-65	-85	-103	-333
Efficiency savings (%)	-2.7%	-3.9%	-4.7%	-5.7%	-8.1%	-5.1%
IPART draft decision						
SPV support costs	1,191	1,211	1,373	1,476	1,261	6,513
Efficiency savings (\$)	-35	-48	-67	-86	-86	-322
Efficiency savings (%)	-3.0%	-3.9%	-4.9%	-5.9%	-6.8%	-5.0%
<i>IPART draft decision vs WaterNSW proposed efficiency savings (\$'000)</i>	-3	0	-3	-1	+17	+11

Source: WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, Attachment 8 – Base Trend Step operating expenditure, September 2025, pp 7, 10; and IPART analysis.

3.4.5 Our assessment of step changes

WaterNSW proposes total step changes of around \$3.4 million (real \$2025–26) over 2026–31, covering corporate overhead allocation, asset refurbishment, real O&M contract variations, regulatory submission costs, SPV contract management, other O&M (including tree care), and travel. WaterNSW proposed operating expenditure step changes is presented in Table 3.8.

Table 3.8 WaterNSW proposed operating expenditure Steps (\$'000, \$2025–26)

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

Source: WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, Attachment 8 – Base Trend Step operating expenditure, September 2025, p 10.

Corporate overheads

Under WaterNSW's Cost Allocation Manual (CAM), corporate overheads are allocated to the Pipeline based on its share of direct operating expenditure (excluding energy). WaterNSW forecasts this share to increase from 1.9% in 2024–25 to an average of around 2.4% over 2026–31, primarily due to lower expenditure in the other WaterNSW Determinations (WAMC, Greater Sydney and the Rural Valleys).³²

As a result, proposed overheads allocated to the Pipeline would increase by an average of 54.3% or \$0.42 million per year relative to the average allowance in the 2023–26 period, up from an average of \$0.78 million to \$1.20 million per year.³³ This equates to a total increase in overheads allocated to the pipeline of \$2.11 million over the period, relative to the average allowance during 2023–26.

We note that, at \$0.98 million, the allocation of overheads in the base year was higher than the average during the period,^a resulting in a smaller proposed average annual step change relative to the base year of \$0.22 million per year. For the full 2026-31 period, this amounts to a total increase of \$1.12 million relative to the base year.^{b,34}

Assessing the level of corporate overheads and the allocation to determinations remains a challenging area. While WaterNSW's corporate overheads were examined to some extent by Atkins for rural valleys and Aither for Greater Sydney, both found it difficult to get clarity on the true nature of WaterNSW's corporate overheads and the appropriateness of the allocation method.

For example, Aither noted that "it is difficult to understand the exact nature of the overhead expenditure and the appropriateness of the allocations".³⁵ And Atkins found WaterNSW was unable to provide robust detailed justification for higher corporate and overhead costs, commenting that "the lack of explanation suggests that WaterNSW may not have a strong system of measuring, understanding and managing variance against the Determination".³⁶

Aither also pointed out that:³⁷

Ideally, the allocation of corporate overheads within the revenue requirement should not significantly fluctuate on an annual basis, as this would create material impacts to the operating expenditure allowance (which then impacts on the revenue required from customers each year). This is difficult to manage for the business and makes longer-term trend assessments difficult where variations are regularly driven by fluctuations in allocation of costs.

We agree with Aither's comment that the allocation of corporate overheads should ideally not fluctuate significantly on an annual basis. The significant fluctuations we are observing with WaterNSW's allocation of overheads suggests current cost records and/or the allocation method may require refinement.

We consider it important that our approach to overhead allocation for the Pipeline is aligned with our broader decisions for WaterNSW's Greater Sydney, Rural Valleys and WAMC determinations.

For the purposes of this Draft Report we have adopted WaterNSW's proposed overhead allocation. Before making our final decisions, we will further investigate how to align the allocation of overheads between the two current reviews. The draft decision on allocation of corporate overheads is presented in Table 3.9.

^a Reported by WaterNSW as \$0.95 million in \$2024-25, which converts to \$0.98 million in \$2025-26 terms.

^b This is smaller than the \$1.59 million total increase reported by WaterNSW, after accounting for escalation of the 2024-25 base year value to \$2025-26.

Table 3.9 Allocation of corporate operating expenditure (\$'000, \$2025-26)

	2024-25 Base year	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total
WaterNSW proposal & IPART draft decision								
WaterNSW total corporate operating expenditure	51,832	45,486	45,681	47,483	47,982	56,916	47,711	245,772
Proposed allocation to BHP (%)	1.9%	2.3%	2.4%	2.3%	2.7%	2.4%	2.4%	2.4%
Proposed allocation to BHP (\$'000)	977	1,054	1,090	1,110	1,272	1,375	1,160	6,007
IPART draft decision			1,090	1,110	1,272	1,375	1,160	6,007

Source: WaterNSW, Pricing Proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, [Attachment 8 – Base Trend Step operating expenditure](#), September 2025, p 10; WaterNSW, *Pricing proposal to the Independent Pricing and Regulatory Tribunal – Annual Information Return/Special Information Return*, September 2025; and IPART analysis.

Asset refurbishment costs

WaterNSW proposes an operating expenditure step of \$0.93 million over 2026–31 for asset refurbishment, reflecting updated timing of works under the O&M contract as the pipeline reaches its first decade of operation. These activities include refurbishment of Bulk Water storage aerators, overhead gantry cranes, drive motors, coatings, and other appurtenances and control systems.³⁸

HoustonKemp confirms that the proposed asset refurbishment costs are consistent with the O&M contract's 20-year profile, represent relatively low expenditure in absolute terms, and are clearly distinguished from capital replacement costs.³⁹

We have adopted WaterNSW's proposed asset refurbishment operating expenditure step, noting that the O&M contract and asset management approach was previously reviewed and found reasonable (see section 3.3.2), and the proposed change in expenditure:

- is consistent with the contractually defined lifecycle profile
- leaves the total contract period expenditure practically unchanged.

O&M contracts – real changes

WaterNSW proposes a real increase of about \$0.74 million in O&M contract costs over 2026–31, above CPI. These variations reflect the contractually determined pattern of cyclical maintenance, with higher cost years linked to major overhauls or intensive maintenance periods.⁴⁰

HoustonKemp found that this real O&M profile is consistent with the efficient lifecycle of the assets and aligns well with the timing and scale of capital replacement and refurbishment spending.⁴¹

We agree with HoustonKemp's findings, noting again that the O&M contract and the asset management approach was previously reviewed and found reasonable. We have therefore adopted WaterNSW's proposed real O&M step changes.

Regulatory submission, implementation and reporting costs

WaterNSW is proposing regulatory submission, implementation and reporting costs over the 2026 determination period totalling \$0.80 million, comprising:⁴²

- \$0.46 million for development of the next pricing submission, a reduction of \$69,000 (14%) relative to the costs WaterNSW's submits to have incurred for the current proposal
- \$57,000 in 2026-27 to implement the new determination and establish new ongoing reporting requirements
- \$57,000 per year for ongoing regulatory reporting.

IPART's 2022 final decision set an allowance for regulatory submission costs of \$0.31 million, with WaterNSW's submitted actual costs 70% higher than the allowance. WaterNSW explains that the higher spend is:⁴³

...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.

HoustonKemp considers WaterNSW's proposed uplift in regulatory costs to be reasonable, including the proposed 14% reduction in costs for the next pricing submission compared with the current review.⁴⁴ However, its analysis does not address whether the current submission costs, which are materially above IPART's previous allowance, reflect an efficient level of expenditure.

We accept that IPART's 3Cs framework sets higher expectations regarding the proposal development process and quality. However, we are not convinced that the 3Cs framework should require proposal development costs for the current proposal 70% higher than the IPART allowance for 2023-26, or a proposed 48% higher for the next proposal development.

We also note the findings by our expenditure consultants in 2022, AECOM, which found that the level of effort (and cost) for the Pipeline regulatory submission should in practice be lower than average as:⁴⁵

- WaterNSW can obtain many of the inputs from the Joint Venture (for instance, with operations and maintenance costs being specified in the contract) and does not need to develop them itself.
- WaterNSW should be able to leverage its broader regulatory capability for this small portion of its business.

In the absence of further substantiation, our draft decision is to limit the allowance for the next regulatory proposal to a 20% uplift on the previous allowance. In addition, we adopt WaterNSW's proposed implementation and ongoing reporting expenditure. Our draft decision is summarised in Table 3.10.

Table 3.10 Draft decision on regulatory submission, implementation and reporting operating expenditure (\$'000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
WaterNSW proposal						
Regulatory reporting in base operating expenditure	57.4	57.4	57.4	57.4	57.4	286.8
Regulatory proposal development	0.0	0.0	0.0	247.7	208.2	455.8
Regulatory decision implementation	56.5	0.0	0.0	0.0	0.0	56.5
Total regulatory submission and reporting	113.9	57.4	57.8	305.1	265.5	799.6
IPART draft decision						
Regulatory reporting in base operating expenditure	57.4	57.4	57.8	57.4	57.4	286.8
Regulatory proposal development	0.0	0.0	0.0	201.5	169.3	370.8
Regulatory decision implementation	56.5	0.0	0.0	0.0	0.0	56.5
Total regulatory submission and reporting	113.9	57.4	57.8	258.8	226.7	714.6
<i>Draft decision vs WaterNSW proposed (\$)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-46.2</i>	<i>-38.8</i>	<i>-85.1</i>
<i>Draft decision vs WaterNSW proposed (%)</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>-15%</i>	<i>-15%</i>	<i>-11%</i>

Source: WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, Attachment 8 – Base Trend Step operating expenditure, September 2025, pp 10, 12; WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal – Annual Information Return/Special Information Return, September 2025; and IPART analysis.

SPV contract management costs

These costs are separate from corporate overheads and cover SPV activities such as contract oversight direct costs, coordination with service providers (e.g. John Holland Trility JV), compliance, reporting, legal and internal administration.⁴⁶

The 2022 Determination provided for an average annual allowance of \$193,000. WaterNSW's submitted actual expenditure in the base year (2024-25) was \$131,000^c while average annual expenditure during the 2023-26 period was \$112,000 per year.⁴⁷

WaterNSW submits that SPV contract management costs are forecast to decrease over the 2026 Determination period, due to works being completed that no longer require project management. Works include tree planting and streetscape works in Wentworth Ski Park that required management.⁴⁸

WaterNSW forecasts SPV contract management costs to be lower over the 2026 Determination period by on average \$13,000 per year relative to the base year (2024-25), resulting in a total reduction of \$65,000 over the period compared with the base year.⁴⁹ Nevertheless, this reflects average annual expenditure of \$118,000 over the period, *higher* than the average annual expenditure during the current period of \$112,000 per year. See Table 3.11.

^c Reported by WaterNSW as \$127,000 in \$2024-25, which converts to \$131,000 in \$2025-26 terms.

Table 3.11 SPV contract management 2023-26 allowance vs actuals and proposed (\$2025-26)

	Average annual amount (\$'000)	Per cent (%)
IPART allowance 2023-26	192.7	
Actuals 2023-26	112.2	
Base year (2024-25) actual	130.6	
Proposed 2026-31	117.7	
<i>Proposed 2026-31 vs allowance 2023-26</i>	<i>-75.0</i>	<i>-38.9%</i>
<i>Proposed 2026-31 vs actuals 2023-26</i>	<i>+5.5</i>	<i>+4.9%</i>
Proposed 2026-31 vs base year 2024-25	-12.9	-9.9%

Source: WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, Attachment 8 – Base Trend Step operating expenditure, September 2025, p 10; WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal – Annual Information Return/Special Information Return, September 2025; and IPART analysis.

WaterNSW's proposed average annual step change relative to the base year represents 9.9% of the base year amount. To reflect WaterNSW's stated reduction in activities and costs, our draft decision is to apply the same percentage reduction to the average annual expenditure during the 2023-26 period. Our draft decision is shown in Table 3.12 below.

Table 3.12 Draft decision on SPV contract management operating expenditure (\$000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
WaterNSW proposed	116	117	118	119	120	589
IPART draft decision	101	101	101	101	101	506
<i>Draft decision vs WaterNSW proposed (\$)</i>	<i>-14</i>	<i>-15</i>	<i>-17</i>	<i>-18</i>	<i>-19</i>	-83
<i>Draft decision vs WaterNSW proposed (%)</i>	<i>-12.5%</i>	<i>-13.3%</i>	<i>-14.1%</i>	<i>-14.9%</i>	<i>-15.7%</i>	-14.1%

Source: WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, Attachment 8 – Base Trend Step operating expenditure, September 2025, p 10; WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal – Annual Information Return/Special Information Return, September 2025; and IPART analysis.

Travel and other operating expenditure

WaterNSW proposes negative step changes for:⁵⁰

- travel costs, amounting to a reduction of \$3.400 relative to the base year or \$900 relative to average travel costs in the 2023-26 period
- other operating expenditure including materials and tree care, amounting to a reduction of about \$0.29 million, as tree-planting programmes and associated works conclude.

HoustonKemp considers these reductions reasonable and consistent with the completion of discrete activities and a mature operating phase for the Pipeline.⁵¹

IPART agrees that these are reasonable. We have adopted the reduction in other operating expenditure. However, for consistency with our treatment of immaterial cost variations such as WaterNSW's proposed increase in audit fees, we do not adopt the reduction in travel costs.

3.5 Energy costs

3.5.1 Summary of our draft decisions

Our draft decisions are to:

1. Set the efficient allowance for benchmark electricity costs for the Broken Hill Pipeline at around \$9.60 million over the 2026–31 determination period. This is approximately 3.7% lower than WaterNSW's proposed benchmark energy costs of \$9.98 million, and reflects adjustments recommended by our independent expenditure consultant, HoustonKemp, to correct modelling inconsistencies and update key input prices.
2. Adopt an energy cost true-up mechanism for both the 2022–26 and 2026–31 determination periods, covering benchmark wholesale, network and renewable energy policy (environmental) cost components of the energy price.
3. For the 2022–26 determination period, apply the true-up ex post using updated benchmark inputs, resulting in an estimated over-recovery of around \$0.57 million in present value terms, and reduce allowed revenue in 2026–31 by annual amount of \$0.13 million each year.

We engaged experts HoustonKemp to advise us on WaterNSW's proposal and Frontier Economics' electricity cost modelling. We consider HoustonKemp's analysis robust and have relied on it in forming our draft decisions on both the benchmark energy allowance and the energy cost true-up mechanism.

Our draft decision on efficient energy costs for the Pipeline is set out in Table 3.13.

Table 3.13 Draft decision on efficient energy costs (\$000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water						
WaterNSW proposed	2,001.4	1,986.9	2,004.4	2,001.8	1,976.0	9,970.5
IPART's draft decision	1,936.3	1,928.2	1,920.0	1,919.3	1,899.3	9,603.1
<i>Difference from proposal (total)</i>	<i>(65.1)</i>	<i>(58.7)</i>	<i>(84.4)</i>	<i>(82.5)</i>	<i>(76.7)</i>	<i>(367.4)</i>
<i>Difference from proposal (total, %)</i>	<i>-3.3%</i>	<i>-3.0%</i>	<i>-4.2%</i>	<i>-4.1%</i>	<i>-3.9%</i>	<i>-3.7%</i>
Offtakes						
WaterNSW proposed	2.7	2.6	2.7	2.7	2.6	13.2
IPART's draft decision	2.6	2.6	2.6	2.5	2.5	12.8
<i>Difference from proposal (total)</i>	<i>(0.1)</i>	<i>(0.1)</i>	<i>(0.1)</i>	<i>(0.1)</i>	<i>(0.1)</i>	<i>(0.5)</i>
<i>Difference from proposal (total, %)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>	<i>(0.0)</i>

Source: WaterNSW, *Pricing Proposal to the Independent Pricing and Regulatory Tribunal – Annual Information Return/Special Information Return*, September 2025; and IPART analysis.

Our draft decisions are:

4. To set WaterNSW's total energy expenditure allowances over the 2026-31 period as shown in Table 3.13, to around:
 - a. \$9.6 million for services to Essential Water
 - b. \$12,800 for services to Offtake customers.
5. To adopt an energy cost true-up mechanism for both the 2022 and 2026 determination periods, covering benchmark wholesale, network and renewable energy policy (environmental) cost components of the energy price.
6. To apply the energy cost true-up for the 2022 determination period, resulting in an estimated over recovery of around \$0.57 million in present value terms that will be returned to customers over 2026-31.

3.5.2 WaterNSW's proposal

WaterNSW proposes benchmark electricity costs of \$9.98 million over the 2026-31 determination period, or around \$2.0 million per year. This proposal is based on modelling by Frontier Economics, which:⁵²

- forecast annual pumping volumes of around 6,500 ML and constructs efficient pumping profiles using half-hourly electricity usage data from 2019-24, anchored on FY24
- estimated electricity consumption of around 10,650 MWh per year, with most pumping in off-peak and shoulder periods and very limited pumping in peak periods
- adopted fixed and variable energy requirement assumptions consistent with IPART's 2022 Determination^d
- calculated a benchmark unit energy price by combining:
 - wholesale electricity purchase costs
 - energy losses and unaccounted-for energy
 - network charges under Essential Energy's network tariff
 - costs of environmental policies, i.e. renewable and energy savings schemes^e
 - Australian Energy Market Operator (AEMO) market fees and ancillary services
 - a retail operating cost allowance and margin.

^d The variable energy requirement is that which is needed directly for pumping the water, while the fixed energy requirement relates to energy consumed by equipment regardless of whether or not water is being pumped.

^e These are the: (a) Large-scale Renewable Energy Target (LRET); (b) Small-scale Renewable Energy Scheme (SRES); and (c) Energy Savings Scheme (ESS).

WaterNSW also proposes an energy cost true-up mechanism that would apply to both 2022–26 and 2026–31. The mechanism:⁵³

- updates the benchmark energy price retrospectively for changes in:
 - wholesale electricity prices
 - network tariffs
 - renewable and energy savings scheme costs
- holds constant the benchmark energy volumes and pumping profile from IPART's decision
- calculates annual over- or under-recovery of benchmark energy costs and smooths the net adjustment over the subsequent determination period.

Using this mechanism for the 2022 determination period, WaterNSW estimates an over-recovery of about \$0.57 million, and proposes to reduce revenue over 2026–31 by \$0.13 million per year to return this amount to customers.⁵⁴

3.5.3 Our assessment of benchmark efficient energy costs

Efficient energy consumption and pumping profile

We consider Frontier Economics' approach to forecasting efficient energy consumption reasonable. Frontier:⁵⁵

- used WaterNSW's forecast pumping volumes for the 2026–31 period (around 6,500 ML per year)
- constructed daily pumping profiles from half-hourly metered data for 2023–24, adjusted to match forecast volumes and day-of-week patterns in each future year
- allocated pumping across peak, shoulder and off-peak periods, ensuring that pumping does not exceed technical capacity in any period.

Electricity consumption was then derived from these pumping profiles using the same assumptions for fixed and variable energy requirements as those used in our 2022 determination.

HoustonKemp reviewed this methodology and found it generally sound. However, HoustonKemp derived an alternative pumping profile that:⁵⁶

- is based on more recent data on actual pipeline operations over 2024–25, which was not available at the time of Frontier's analysis
- makes a correction to the allocation of pumping volumes to be consistent with the definitions of peak, shoulder and off-peak periods in the network tariff.

HoustonKemp also re-estimated the fixed and variable energy requirements using up to date data, and provided estimates of upper and lower bound forecasts of energy consumption where:⁵⁷

- the lower bound estimate adopts: (a) the fixed energy requirement assumption from the 2022 Determination as proposed by WaterNSW and (b) a variable energy requirement assumption based on HoustonKemp's updated analysis
- the upper bound estimate adopts the assumptions for fixed and variable energy requirements in WaterNSW's proposal, consistent with IPART's 2022 Determination.

HoustonKemp recommended that IPART adopt the lower bound estimate, and we have accepted this recommendation which is reflected in our draft decision on the forecast energy cost for the 2026-31 period (see below).

Wholesale, network, environmental and other cost components

Frontier's benchmark energy price uses market-based inputs for each component (wholesale, network, environmental, market fees, ancillary services, retail costs and margin).⁵⁸

HoustonKemp endorses Frontier's approach but updated the energy input prices using more recent data. Using data to the end of 2025, HoustonKemp found, relative to Frontier's unit prices:⁵⁹

- wholesale energy: 5–9% lower, due to lower ASX Energy futures prices by late 2025
- large-scale Renewable Energy Target: roughly 50% lower, driven by reduced forward large-scale generation certificate (LGC) prices^f and updated renewable power percentages^g
- Energy Savings Scheme: 13–25% higher, reflecting higher spot prices for Energy Savings Certificates^h spot prices
- ancillary services: about 6.2% lower
- about the same for market fees, network charges and retail costs.

Combining updated input prices with the refined consumption estimates, HoustonKemp estimates efficient energy costs for the Pipeline, relative to WaterNSW's proposal, to be:⁶⁰

- 3.8% lower in the lower bound estimate, which is based on HoustonKemp's lower bound energy consumption and updated input prices
- 2.2% lower than WaterNSW's proposal in the upper bound estimate, which is based on WaterNSW's proposed energy consumption but with updated input prices.

Table 3.14 compares HoustonKemp's upper and lower bound against WaterNSW's proposed electricity cost forecast.

^f LGCs are tradable certificates created for eligible large-scale renewable energy power stations. The certificates represent the amount of renewable energy generated by these facilities. An LGC is equal to 1 megawatt-hour (MWh) of renewable electricity generated or displaced by a power station. Source: [Large-scale generation certificates | Clean Energy Regulator](#)

^g Under the Large-scale Renewable Energy Target, liable entities surrender large-scale generation certificates (LGC) to meet the annual target of renewable electricity each year. The renewable power percentage (RPP) helps calculate the amount of LGCs liable entities surrender each year. Source: [Renewable power percentage | Clean Energy Regulator](#)

^h An Energy Savings Certificate (ESC) is a tradeable certificate representing one notional megawatt hour of energy. Source: [Energy Savings Certificates | IPART](#)

Table 3.14 WaterNSW proposed vs HoustonKemp recommended forecast electricity costs (\$'000, \$2025-26)

	WaterNSW proposal	HoustonKemp upper bound		HoustonKemp lower bound	
	\$'000	\$'000	% vs WNSW	\$'000	% vs WNSW
Wholesale energy costs	4,594.3	4,367.3	-4.9%	4,265.2	-7.2%
Renewable energy policy costs	412.1	394.5	-4.3%	385.3	-6.5%
Market fees and ancillary services costs	41.5	41.2	-0.7%	40.2	-3.0%
Network charges	4,356.4	4,395.1	+0.9%	4,351.5	-0.1%
Retail operating cost and margin	582.8	570.3	-2.1%	560.9	-3.8%
Total energy costs	9,987.1	9,768.4	-2.2%	9,603.1	-3.8%

Source: HoustonKemp, *Review of WaterNSW's proposed expenditure for the Wentworth to Broken Hill pipeline*, March 2026, p. 61

HoustonKemp recommends that IPART adopt the lower bound estimates for energy costs in the 2026 to 2031 determination period. We consider HoustonKemp's corrections and updated inputs to be well founded. They improve the accuracy of the benchmark without changing the underlying methodology or risk allocation framework that we applied in 2022.

Our draft decision is therefore to adopt HoustonKemp's lower bound benchmark energy cost estimate of \$9.6 million over 2026–31, equating to around \$1.92 million per year.

3.5.4 Our assessment of the energy cost true-up mechanism

WaterNSW, supported by Frontier, proposed an energy cost true-up that applies to:⁶¹

- wholesale energy costs
- network charges
- renewable energy policy costs (LRET, SRES, ESS).

The mechanism updates benchmark energy price components ex post, based on observed or updated forward market data and published regulatory parameters, while keeping the benchmark volumes and usage profile fixed at the levels determined by IPART.⁶²

We consider this mechanism to be consistent with IPART's true-up and cost pass-through principles because:

- the trigger events (movements in wholesale, network and environmental benchmark prices) are clearly defined and externally determined
- the impact on efficient costs can be transparently calculated using public data and the benchmark usage profile in our decision
- the potential impact is material, given the size and volatility of these components
- WaterNSW cannot influence the trigger events or their effects, as they are market and regulatory outcomes
- the mechanism is symmetric, applying equally to increases and decreases in benchmark energy costs.

WaterNSW proposes to apply the true-up to the 2023–26 period by:⁶³

- recalculating benchmark energy costs using the benchmark volumes from our 2022 decision and updated benchmark wholesale, network and environmental prices
- comparing these recalculated benchmark costs with the allowance used to set prices in 2022
- aggregating annual differences and adjusting for the time value of money.

This results in an estimated over-recovery of \$0.57 million in present value terms. WaterNSW proposed to return this to customers over 2026–31 via an annual revenue reduction of \$0.13 million, totalling -\$0.65 million over the period.⁶⁴

Our draft decision is to adopt WaterNSW's proposed energy cost true-up, and to apply the true-up to the 2023–26 period, returning \$0.65 million to customers over the 2026–31 period. For the 2026–31 period, we intend that the same mechanism will apply.

3.6 General cost pass-through events

WaterNSW has proposed a general cost pass-through to cover unforeseen costs relating to:⁶⁵

- regulatory change events
- service standard events
- tax change events
- insurance coverage events (to address costs beyond the insurance cap and beyond the reasonably available insurance cover)
- insurer's credit risk events
- natural disaster events
- terrorism events.

WaterNSW argues that these events, and the associated costs, cannot be practically identified at the time of a determination, but the cost impacts are material.⁶⁶

WaterNSW has proposed a similar cost pass-through in previous reviews. We have not adopted the proposed general cost pass-through on the basis that it would likely result in an inefficient transfer of risk from WaterNSW to its customers, weakening WaterNSW's incentives to manage these risks efficiently.

WaterNSW proposes that the mechanism be designed to allow IPART to determine the efficient cost pass-through amount, and the recovery period for the cost pass-through, at the time of the event (rather than specifying unknown costs at the time of the determination). It highlights that this approach aligns with the cost pass-through mechanisms in other regulatory regimes such as the National Energy Regulatory regime for electricity and gas networks.⁶⁷

We maintain our view that a general cost pass-through would likely result in an inefficient transfer of risk from WaterNSW to its customers, weakening WaterNSW's incentives to manage these risks efficiently and the mechanism does not pass our criteria for a cost pass-through mechanism.

Broadly:

- the proposed events are not new risks. The risks apply to all regulated businesses, and this is considered when determining the length of a determination period
- the events are general and there is no clearly identified trigger event
- the efficient cost resulting from these events cannot be fully assessed and calculated
- there may be instances where the business can influence the trigger event or resulting cost
- it is efficient for businesses to be at least partially exposed to risks that they have some ability to control or influence. This provides the business with an incentive to maximise the likelihood and benefits of upside risk and minimise the likelihood and cost of downside risk

for example, WaterNSW may be able to actively plan for a natural disaster and insure against these events to minimise the impact of the event risk and resulting cost. The proposed cost pass-through mechanism would remove the business's incentive to purchase appropriate insurance coverage.

- our current form of regulation accommodates the risk related to identified events (e.g. natural disaster) that may have a material impact on its financial position, as businesses can seek to bring forward the next price review and determination. This approach is more consistent with our risk management framework.

Instead of a cost pass-through mechanism, we consider that it may be more appropriate to assess specific risks case-by-case as they arise. This means that a cost pass-through mechanism is only applied when it is likely that the cost pass-through event will occur during the determination period and where only the efficient costs resulting from the event are passed through to customers.

Chapter 4 >>

Notional revenue requirement

04

Summary of our draft decisions on revenue requirement

We will set the notional revenue requirement (NRR) for services to Essential Water at \$148.5 million over the 2026 determination period

This is:

- \$5 million or 20% higher per year than WaterNSW annual average revenue requirement over the 2022 determination period
- \$2 million (or 7%) higher than WaterNSW's pricing proposal.

These differences are both driven by an increase in return on assets due to:

- a higher cost of debt over the 2022 determination period than we used to set prices, which WaterNSW will be compensated for over the 2026 determination period through a cost of debt true-up
- a real post-tax WACC in our draft decision of 3.6%, compared to the 3.1% used in WaterNSW's pricing proposal and the 2.8% used in the 2022 Determination.

We will set the notional revenue requirement for services to offtake customers at \$0.2 million over the 2026 determination period

This is around \$5,000 or 17% higher per year than WaterNSW annual average revenue requirement over the 2022 determination period.

This is closely aligned with WaterNSW's pricing proposal with a difference of around 1%.

We have used the building block approach to calculate WaterNSW's notional revenue requirement for its pipeline business, as is outlined in the [Water Regulation Handbook](#). Based on our draft decisions on WaterNSW's efficient operating and capital expenditure in chapter 3, this chapter explains how we calculate the:

- return on assets
- return of assets (also known as regulatory depreciation)
- working capital allowance
- tax allowance
- revenue adjustments.

Our draft decisions on these building blocks consider the matters set out in sections 14A(2) and 15(1) of the IPART Act. Our framework for setting the [WACC](#) is an important component of ensuring that the maximum prices we set for WaterNSW enable sustainable operations and protects customers from the abuse of monopoly power. It means that prices only recover a reasonable rate of return that would be earned by a similar business operating in a competitive market. The WACC also enables WaterNSW to maintain its dividend requirements to the NSW Government.

To set prices, we first determine the efficient costs that WaterNSW would require to deliver its services. The NRR represents our view of the total efficient costs of providing the regulated services to Essential Water and offtake customers in each year of the determination period. In general, we then set prices to recover this amount of revenue. This chapter sets out our calculation of the notional revenue required to fund WaterNSW's regulated services over the 2026 determination period.

4.1 WaterNSW's total notional revenue requirement is \$148.6 million

Our draft decisions are:

7. To set the notional revenue requirement for services to Essential Water at \$148.5 million over the 2026 determination period as shown in Table 4.1.
8. To set the notional revenue requirement for services to offtake customers at \$0.2 million over the 2026 determination period as shown in Table 4.2.

4.1.1 Notional revenue requirement for services to Essential Water

Our draft decision for services to Essential Water is to set total NRR for the 2026 determination period at \$148.5 million.

Table 4.1 Draft decision on notional revenue requirement for services to Essential Water for the 2026 determination period (\$'000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Water NSW's proposed						
Total notional revenue requirement	27,842	27,529	28,172	27,564	27,175	138,283
IPART decision						
Operating expenditure	5,716	5,544	6,270	5,734	5,523	28,787
Return on assets	16,183	15,972	15,770	15,562	15,341	78,828
Regulatory depreciation	6,117	6,122	6,141	6,156	6,156	30,693
Tax allowance	780	811	840	870	897	4,198
Return on working capital	185	186	185	186	184	925
Cost of debt true-up	1,135	1,135	1,135	1,135	1,135	5,676
Energy cost true-up	-130	-130	-130	-130	-130	-650
Total notional revenue requirement	29,987	29,641	30,212	29,512	29,106	148,458
<i>Difference proposed & IPART decision (\$)</i>	<i>2,145</i>	<i>2,112</i>	<i>2,039</i>	<i>1,948</i>	<i>1,930.97</i>	10,175
<i>Difference proposed & IPART decision (%)</i>	<i>8%</i>	<i>8%</i>	<i>7%</i>	<i>7%</i>	<i>7%</i>	7%

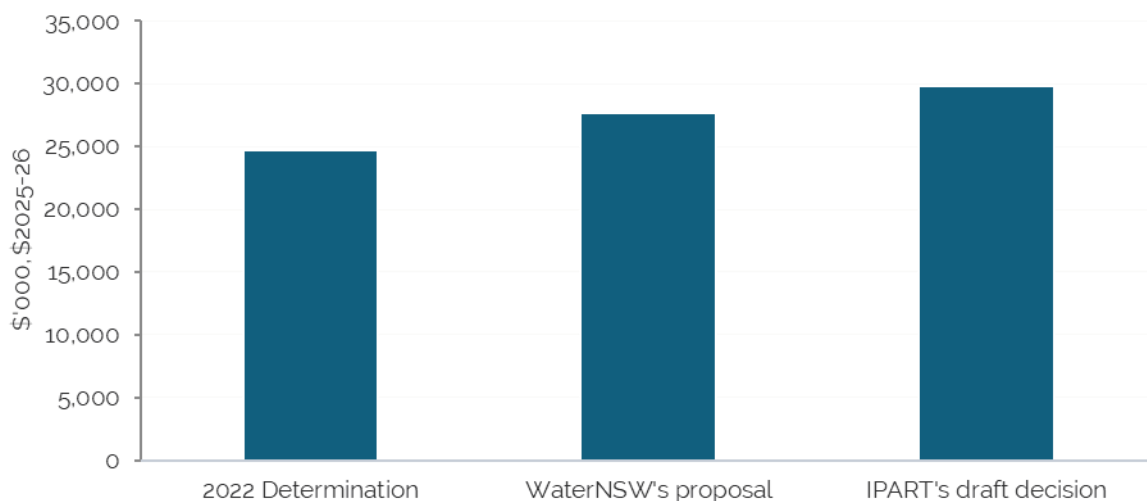
Figure 4.1 compares our draft decision on the notional annual revenue requirement for services to Essential Water with the 2022 Determination and WaterNSW's proposal.

At an average of \$29.7 million per year over 5 years, this is \$2 million or 7% higher than WaterNSW's proposal. This difference is due to an increase in the draft WACC to 3.6%, which is 50 basis points higher than the 3.1% WACC WaterNSW used in its pricing proposal.

Also, our draft decision on the NRR is \$5 million or 20% higher on average per year than WaterNSW's annual average revenue requirement for services to Essential Water over the 2022 determination period. This is primarily driven by the:

- higher draft WACC of 3.6%, compared to the 2.8% we used to set the NRR in the 2022 determination
- cost of debt true-up which is discussed in Section 4.6.

Figure 4.1 Average annual notional revenue requirement for Essential Water (\$'000, \$2025-26)



Source: IPART analysis

4.1.2 Notional revenue requirement for services to offtake customers

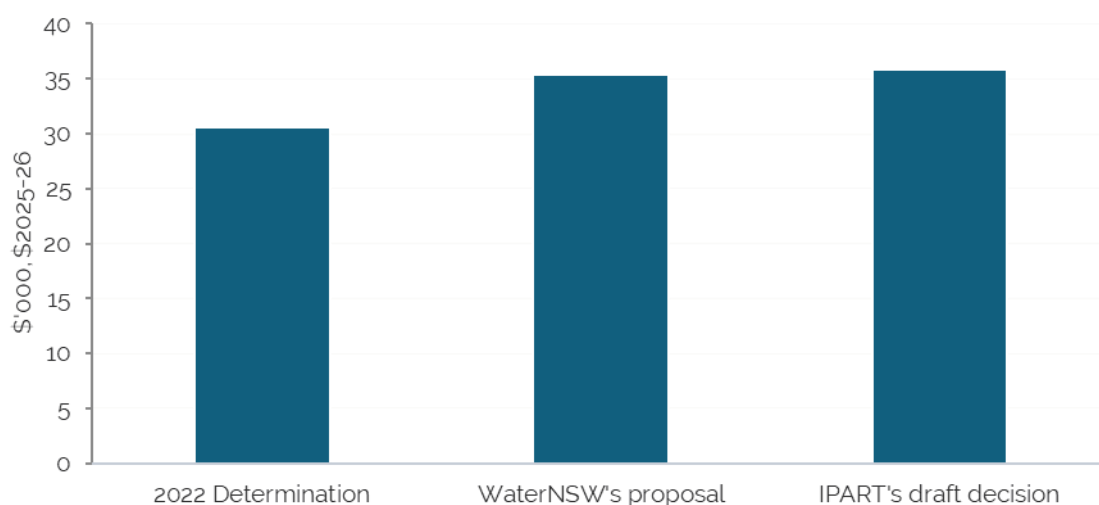
Our draft decision for services to offtake customers is to set total NRR for the 2026 determination period at \$0.2 million.

Table 4.2 Draft decision on notional revenue requirement for services to offtake customers for the 2026 determination period (\$'000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Water NSW's proposed						
Total notional revenue requirement	33.8	33.9	35.6	37.2	36.5	176.9
IPART decision						
Operating expenditure	2.6	2.6	2.6	2.5	2.5	12.8
Return on assets	11.4	10.9	10.9	10.8	10.0	54.0
Regulatory depreciation	18.5	18.9	20.3	21.8	21.8	101.2
Tax allowance	1.5	1.7	2.0	2.2	2.3	9.7
Return on working capital	0.2	0.2	0.3	0.3	0.3	1.3
Cost of debt true-up	0.0	0.0	0.0	0.0	0.0	0.0
Energy cost true-up	0.0	0.0	0.0	0.0	0.0	0.0
Total notional revenue requirement	34.2	34.3	36.0	37.6	36.9	179.0
<i>Difference proposed & IPART decision (\$)</i>	0.4	0.4	0.4	0.4	0.4	2.0
<i>Difference proposed & IPART decision (%)</i>	1.3%	1.2%	1.2%	1.2%	1.0%	1.1%

Figure 4.2 compares our draft decision on the notional annual revenue requirement for services to offtake customers with the 2022 determination and WaterNSW's proposal. At an average of \$36,000 per year over 5 years, this is closely aligned with WaterNSW's proposal with a difference of around 1%. Also, this is \$5,000 or 17% higher per year than WaterNSW's current annual average revenue requirement for services to offtake customers.

Figure 4.2 Average annual notional revenue requirement for offtake customers (\$'000, \$2025-26)



Source: IPART analysis

4.2 We used the building block approach to calculate the NRR

We used the building block approach to calculate WaterNSW's NRR for services to Essential Water and offtake customers respectively. This approach involves determining an allowance for each year of the determination period for each of the 5 components (or building blocks):

- operating expenditure (Chapter 3)
- return of assets (regulatory depreciation) (section 4.4)
- return on the regulatory value of assets (section 4.5 and Appendix C)
- an allowance for working capital (section 4.8)
- an allowance for meeting tax obligations (section 4.9).

The annual sum of these building block items is the NRR and represents our assessment of the total efficient costs WaterNSW should incur in delivering its services. We also make an adjustment for the previous determination period, specifically for the difference in the cost of debt (discussed in section 4.6) and for the difference in the cost of energy (discussed in section 4.7).

4.3 We determine the RAB using our usual methodology

Our draft decisions for services to Essential Water are:

9. To calculate the RAB for 2022-23 to 2030-31 by using:
- a. a 2022-23 opening RAB of \$417.5 million. The RAB for each year is shown in Table 4.3 and Table 4.4
 - b. \$0.7 million (nominal) of prudent and efficient historical capital expenditure added to the RAB over the 2022 determination period (Chapter 3)
 - c. forecast capital expenditure added to the RAB over the 2026 determination period of \$1.3 million (Chapter 3)
 - d. asset disposals and cash capital contributions of zero.

Our draft decisions for services to offtake customers are:

10. To calculate the RAB for 2019-20 to 2025-26 by using:
- a. 2022-23 opening RAB of \$0.3 million. The RAB for each year is shown in Table 4.5 and Table 4.6.
 - b. \$4,000 (nominal) of prudent and efficient historical capital expenditure added to the RAB over the 2022 determination period (Chapter 3)
 - c. forecast capital expenditure added to the RAB over the 2026 determination period of \$43,000 (Chapter 3)
 - d. asset disposals and cash capital contributions of zero.

The RAB represents the value of WaterNSW's assets on which it should earn a return on capital and an allowance for regulatory depreciation.

4.3.1 The opening RAB for services to Essential Water for the 2026 determination period is \$457.4 million

We calculated the opening RAB for the 2026 determination period by rolling the RAB forward from the previous determination period. To roll the RAB forward from 1 July 2022 to 2025-26, we started with an opening RAB of \$417.5 million and made the following adjustments:

- adding \$0.7 million (nominal) of prudent and efficient historical capital expenditure (Chapter 3)
- deducting zero for cash capital contributions and asset disposals (see section 4.3.3.)
- deducting \$24 million (nominal) for regulatory depreciation (section 4.4)
- adding \$63.2 million of annual indexation of the RAB.

Our RAB roll forward calculations for 2022 determination period are set out in Table 4.3.

Table 4.3 RAB calculation for the 2022 determination period for services to Essential Water (\$'000, \$ nominal)

	2022-23	2023-24	2024-25	2025-26
Opening RAB	417,525	436,878	447,715	451,249
<i>Plus:</i> Efficient capital expenditure	43	192	215	225
<i>Less:</i> Cash capital contributions	0	0	0	0
<i>Less:</i> Asset disposals	0	0	0	0
<i>Less:</i> Regulatory depreciation	5,742	5,960	6,086	6,250
<i>Plus:</i> Indexation	25,053	16,605	9,404	12,187
Closing RAB	436,878	447,715	451,249	457,411

Note: Totals may not sum due to rounding.

Source: IPART analysis.

We calculated the RAB in each year of the 2026 determination period by rolling forward the RAB for 2026-27 by:

- adding forecast capital expenditure of \$1.3 million (Chapter 3)
- deducting zero for forecast cash capital contributions and asset disposals (section 4.3.3)
- deducting \$31.2 million for regulatory depreciation (section 4.4)

Our RAB roll forward calculations for the 2026 determination period are shown in Table 4.4.

Table 4.4 RAB calculation for the 2026 determination period for services to Essential Water (\$'000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
Opening RAB	457,411	451,445	445,491	439,983	433,728
<i>Plus:</i> Efficient capital expenditure	261	277	742	11	43
<i>Less:</i> Cash capital contributions	0	0	0	0	0
<i>Less:</i> Asset disposals	0	0	0	0	0
<i>Less:</i> Regulatory depreciation	6,226	6,231	6,251	6,266	6,266
<i>Plus:</i> Indexation	0	0	0	0	0
Closing RAB	451,445	445,491	439,983	433,728	427,505

Note: Totals may not sum due to rounding.

Source: IPART analysis.

4.3.2 The opening RAB for services to offtake customers for the 2026 determination period is \$0.3 million

We calculated the opening RAB for the 2026 determination period by rolling the RAB forward from the previous determination period. To roll the RAB forward from 1 July 2022 to 1 July 2026 we started with an opening RAB of \$0.3 million and made the following adjustments:

- adding \$4,000 for historical capital expenditure (Chapter 3)
- deducting zero for the cash capital contributions and asset disposals (section 4.3.3)
- deducting around \$0.1 million (nominal) for regulatory depreciation (section 4.4)
- adding around \$50,000 for annual indexation of the RAB.

Our RAB roll forward calculations for the 2022 determination period are set out in Table 4.5.

Table 4.5 RAB calculation for the 2022 determination period for services to offtake customers (\$'000, \$ nominal)

	2022-23	2023-24	2024-25	2025-26
Opening RAB	339.4	344.3	340.3	332.4
<i>Plus:</i> Efficient capital expenditure	1.1	0.3	3.0	0.0
<i>Less:</i> Cash capital contributions	0.0	0.0	0.0	0.0
<i>Less:</i> Asset disposals	0.0	0.0	0.0	0.0
<i>Less:</i> Regulatory depreciation	16.6	17.3	18.1	19.7
<i>Plus:</i> Indexation	20.4	13.1	7.2	9.0
Closing RAB	344.3	340.3	332.4	321.7

Note: Totals may not sum due to rounding.

Source: IPART analysis.

We calculated the RAB in each year of the 2026 determination period by rolling forward the RAB to 2030–31 by:

- adding around \$43,000 for forecast capital expenditure (Chapter 3)
- deducting zero for forecast cash capital contributions and asset disposals (section 4.3.3)
- deducting around \$0.1 million for regulatory depreciation (section 4.4).

Our RAB roll forward calculations for the 2026 determination period are shown in Table 4.6.

Table 4.6 RAB calculation for the 2026 determination period for services to offtake customers (\$'000, \$2025-26)

	2026-27	2027-28	2028-29	2029-30	2030-31
Opening RAB	321.7	302.9	293.0	305.5	283.3
<i>Plus:</i> Efficient capital expenditure	0.0	9.3	33.2	0.0	0.0
<i>Less:</i> Cash capital contributions	0.0	0.0	0.0	0.0	0.0
<i>Less:</i> Asset disposals	0.0	0.0	0.0	0.0	0.0
<i>Less:</i> Regulatory depreciation	18.8	19.3	20.7	22.1	22.1
<i>Plus:</i> Indexation	0.0	0.0	0.0	0.0	0.0
Closing RAB	302.9	293.0	305.5	283.3	261.2

Note: Totals may not sum due to rounding.

Source: IPART analysis.

4.3.3 WaterNSW has no cash capital contributions or asset disposals

Cash capital contributions refer to external funding that WaterNSW receives towards its capital expenditure, such as government grants or contributions from customers. Cash capital contributions are netted off capital expenditure before it (capital expenditure) enters the RAB. This means customers do not pay a return on assets or regulatory depreciation for capital expenditure that has already been funded from other sources.

WaterNSW did not receive or anticipate receiving any cash capital contributions over the 2022 and 2026 determination periods.

Asset disposals can include asset sales, write-offs and write-downs. WaterNSW had no asset disposals over the 2022 determination period and proposed no disposals over the 2026 determination period. We have adopted this proposal.

4.4 WaterNSW's total regulatory depreciation is \$31.5 million

Our draft decisions are:

11. To calculate the allowance for return of assets (regulatory depreciation), using:
 - a. a straight-line depreciation method
 - b. for existing assets, the rolled forward asset lives from the 2022 determination period as listed in Table 4.7
 - c. for new assets, the asset lives listed in Table 4.7.
12. For services to Essential Water, to set the allowance for return of assets at \$30.7 million over the 2026 determination period as shown in Table 4.8.
13. For services to offtake customers, to set the allowance for return of assets at \$0.1 million over the 2026 determination period as shown in Table 4.8.

The allowance for regulatory depreciation allows the capital invested in regulatory assets to be returned over the useful life of each asset. We calculated this allowance by determining the appropriate asset lives for the assets in WaterNSW's RABs and the appropriate depreciation method to use.

4.4.1 We used straight-line depreciation to calculate regulatory depreciation

Consistent with our usual approach, we used the straight-line depreciation method to calculate regulatory depreciation. Under this method, the assets in the RAB are depreciated by an equal value in each year of their economic life.

WaterNSW adopted a straight-line depreciation and approach to asset lives in its pricing proposal.⁶⁸ The straight-line depreciation approach was used in the 2019 and 2022 determinations.⁶⁹

4.4.2 We maintained our approach for rolling forward asset lives for existing assets

We typically calculate the remaining lives of existing assets by rolling forward our previous determination to incorporate new efficient assets and accounting for asset disposals. We have maintained this approach for the 2026 determination period for all asset categories rolled forward from the 2022 determination period.

Our draft decisions on asset lives are set out in Table 4.7.

Table 4.7 Draft decision on asset lives for the 2026 determination period (years)

	Remaining lives of existing assets		Expected lives of new assets	
	Proposed	Draft decision	Proposed	Draft decision
Essential water				
• Pipeline	92	93	100	100
• Bulk water storage facility	72	73	80	80
• Plant and machinery (including pump stations and river intake)	17	18	25	25
• Buildings	52	53	60	60
• Other support costs	0	0	5	5
• Cost of land swap agreement	26	26	30	30
• Wentworth Ski Park Reserve Rehabilitation	52	52	60	60
Offtake customers				
• Initial investments	17	18	25	25
• Asset replacement/refurbishment	2	2	10	10

Note: For existing assets, the figures above are rolled forward asset lives from the 2022 determination period. Although our draft decision on the approach to asset lives is consistent with WaterNSW's pricing proposal, correcting for minor input inconsistencies in WaterNSW's pricing proposal leads to slightly different remaining asset lives.

Source: IPART analysis and WaterNSW, 2025 Pricing Proposal, September 2025, pp 77-78.

4.4.3 WaterNSW's proposed and our draft decision on regulatory depreciation are similar

Our draft decision on regulatory depreciation for services to Essential Water is \$723,000 (2%) lower over the 2026 determination period than proposed by WaterNSW. For services to offtake customers, our draft return of assets allowance is 5% lower over the 2026 determination period than proposed by WaterNSW.

Table 4.8 Draft decision on regulatory depreciation allowance for the 2026 determination period (\$'000, \$2025–26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water						
WaterNSW's proposed	6,262	6,267	6,286	6,301	6,301	31,417
Draft decision	6,117	6,122	6,141	6,156	6,156	30,693
<i>Difference</i>	-145	-145	-145	-145	-145	-723
<i>Difference (%)</i>	-2%	-2%	-2%	-2%	-2%	-2%
Offtake customers						
WaterNSW's proposed	20	20	21	23	23	107
Draft decision	18	19	20	22	22	101
<i>Difference</i>	-1	-1	-1	-1	-1	-5
<i>Difference (%)</i>	-5%	-5%	-5%	-5%	-5%	-5%

Note: The allowance for return of assets is a mid-year figure (i.e. the RAB roll forward depreciation figure is discounted by half a year of WACC). Totals may not sum due to rounding.

Source: IPART analysis and WaterNSW, 2025 Pricing Proposal, September 2025, p 98.

4.5 WaterNSW's total return on assets is \$78.9 million

Our draft decisions are:

14. For services to Essential Water, to set an allowance for return on assets of \$78.8 million over the 2026 determination period (shown in Table 4.9). This is calculated by using:

- a. the RAB values shown in Table 4.4
- b. a real post-tax WACC of 3.6%.

15. For services to offtake customers, to set an allowance for return on assets of \$0.1 million over the 2026 determination period (shown in Table 4.9). This is calculated by using:

- a. the RAB values shown in Table 4.6
- b. a real post-tax WACC of 3.6%.

We include an allowance for return on assets in the revenue requirement to account for the opportunity cost of capital invested to provide regulated services. This means businesses can continue to make efficient capital investments in the future. We calculate the return on assets by multiplying the value of the RAB over the determination period by an efficient rate of return.

We calculated a total return on assets allowance of \$78.9 million for WaterNSW over the 2026 determination period. This includes:

- an allowance for return on assets for services to Essential Water of \$78.8 million (shown in Table 4.9)
- an allowance for return on assets for services to offtake customers of \$0.1 million (shown in Table 4.9).

4.5.1 We used a real return on capital (post-tax real WACC) of 3.6%

As in previous reviews, we determined the rate of return using a WACC. We used our standard WACC approach to calculate a WACC of 3.6% for WaterNSW's final prices.

Our draft WACC is 0.5 percentage points higher than the WACC WaterNSW adopted in its pricing proposal (i.e. 3.1%) which was based on IPART's 2025 February biannual market update.⁷⁰ Also, our draft WACC is 0.8 percentage points higher than the WACC we used to set the NRR in the 2022 determination (i.e. 2.8%) which was based on market observations to end of March 2022.⁷¹

The WACC has increased materially due to a rise in the nominal risk-free rate. Although the market risk premium has decreased over the same period, the nominal risk-free rate has risen slightly more, resulting in increases in both the cost of equity and cost of debt, which has led to the overall higher WACC. See Appendix C for more details.

4.5.2 The draft decision on return on assets allowance is 16% higher than proposed

Table 4.9 shows the resulting return on assets (i.e. RAB x WACC%) based on the RAB values set out in section 4.3, and our decision to apply a real post-tax WACC of 3.6%. Our draft decision on capital allowance is 16% higher than proposed by WaterNSW mostly because of the higher WACC value applied.

Table 4.9 Draft decision on return on assets for the 2026 determination period (\$'000, \$2025–26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water						
WaterNSW's proposed	13,952	13,766	13,588	13,404	13,210	67,921
Draft decision	16,183	15,972	15,770	15,562	15,341	78,828
<i>Difference</i>	<i>2,230</i>	<i>2,206</i>	<i>2,182</i>	<i>2,158</i>	<i>2,131</i>	<i>10,907</i>
<i>Difference (%)</i>	<i>16%</i>	<i>16%</i>	<i>16%</i>	<i>16%</i>	<i>16%</i>	<i>16%</i>
Offtake customers						
WaterNSW's proposed	10	9	9	9	9	46
Draft decision	11	11	11	11	10	54
<i>Difference</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>8</i>
<i>Difference (%)</i>	<i>16%</i>	<i>16%</i>	<i>17%</i>	<i>17%</i>	<i>18%</i>	<i>17%</i>

Note: The allowance for return on assets for 2021-22 presented in this table is based on the 2019 determination, adjusted for inflation. Totals may not sum due to rounding.

Source: IPART analysis and WaterNSW, [2025 Pricing Proposal](#), September 2025, p 98.

4.6 We included a cost of debt true-up for the 2022 Determination period of \$5.7 million

Our draft decision is:

16. To set a true-up for differences between the forecast and actual cost of debt over the 2022 determination period of:
 - a. \$5.7 million for services to Essential Water
 - b. zero for services to offtake customers.

Our 2018 WACC methodology introduced a trailing average cost of debt. Under this method the WACC changes every year as new tranches of debt are introduced to the trailing averages and the oldest tranches drop out. At each price review we would consider whether to:


- update prices annually to reflect the updates in the WACC annually
- use a regulatory true-up at the next period, which we would pass through to prices at the beginning of the next period.

The previous WaterNSW price review allowed for an end of period true-up to account for cumulative annual changes in the cost of debt over the 2022 determination period.⁷² WaterNSW proposed that an end-of-period true-up is appropriate for the 2026 determination period⁷³ and proposed a positive adjustment of \$1.1 million per year.⁷⁴ We reviewed the calculation and decided to include a total positive adjustment of \$5.7 million. The cost of debt true-up is one of the key factors contributing to a higher revenue requirement both in our draft decision and in WaterNSW's pricing proposal.

We have adopted WaterNSW's proposal to allocate the total value of the cost of debt true-up to Essential Water. We are of the view that Essential Water is better able than offtake customers to bear the risk of price volatility due to the true-up over consecutive regulatory periods.

4.7 We include a cost of energy true-up for the 2022 Determination period of -\$0.65 million

Our draft decision is:

-  17. To set a true-up for differences between the forecast and outturn benchmark energy costs over the 2022 determination period of:
- a. -\$0.65 million for services to Essential Water
 - b. zero for services to offtake customers.

WaterNSW proposed an energy cost true-up that applies to:

- wholesale energy costs
- network charges
- renewable energy policy costs.

The mechanism adjusts benchmark energy price components retrospectively, using observed or updated forward market data along with published regulatory parameters, while keeping the benchmark volumes and usage profile fixed at the levels determined by IPART.

WaterNSW proposes to apply the true-up for the 2023–26 period by:

- recalculating benchmark energy costs using the benchmark volumes from our 2022 decision and updated benchmark wholesale, network and environmental prices
- comparing these recalculated benchmark costs with the allowance used to set prices in 2022
- aggregating annual differences and adjusting for the time value of money.


This results in an estimated over-recovery of \$0.57 million in present value terms, which WaterNSW proposes to return to customers over 2026–31 via an annual revenue reduction of \$0.13 million totalling \$0.65 million over the period.^a

^a WNSW's proposed cost of energy true-up is -\$0.57 million in present value terms. When this is spread in equal annual amounts through the 2026-31 period, this amounts to -0.13 million per year, for a total of \$0.65 million over the period.

As set out in Chapter 3, our draft decision is to adopt WaterNSW's proposed energy cost true-up, and to apply the true-up to the 2022 determination period, returning \$0.65 million to customers over the 2026-31 period. For the 2026 determination period, we intend that the same energy true-up mechanism will apply.

4.8 WaterNSW's working capital allowance is \$0.9 million

Our draft decision is:

-  18. To set the return on working capital for services to Essential Water and offtake customers for the 2026 determination period as shown in Table 4.10.

The working capital allowance component of the NRR represents the return the business could earn on the net amount of working capital it requires each year to meet its service obligations. It lets the business recover the costs it incurs due to the time delay between providing a service and receiving the money for it (i.e. when bills are paid).

In 2018, we developed a standard approach to calculate the working capital allowance, which can be found in our [Working Capital Allowance Policy paper](#) on our website. We applied the standard approach to this review.

The amount we allowed for the 2026 determination period for services to Essential Water and offtake customers represents the holding cost of net current assets (Table 4.10). The allowance is higher than that proposed by WaterNSW because both the WACC and net working capital we used are higher.^b

Table 4.10 Draft decision for the working capital allowance for the 2026 determination period (\$'000, \$2025–26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water						
WaterNSW's proposed	163.6	163.5	162.2	163.5	161.8	814.6
Draft decision	185.3	186.2	184.6	185.7	183.6	925.4
<i>Difference</i>	21.7	22.8	22.4	22.1	21.8	110.8
<i>Difference (%)</i>	13.3%	13.9%	13.8%	13.5%	13.5%	13.6%
Offtake customers						
WaterNSW's proposed	0.2	0.2	0.2	0.2	0.2	1.2
Draft decision	0.2	0.2	0.3	0.3	0.3	1.3
<i>Difference</i>	0.0	0.0	0.0	0.0	0.0	0.1
<i>Difference (%)</i>	10.0%	9.9%	9.9%	9.9%	9.7%	9.9%

Note: Totals may not sum due to rounding.

Source: IPART analysis and WaterNSW, [2025 Pricing Proposal](#), September 2025, p 87.

^b Our working capital allowance is higher than WaterNSW's proposed amount because we used a higher WACC (3.6%) than WaterNSW (3.1%). We use a nominal post-tax WACC to calculate the return on working capital.

4.9 WaterNSW's tax allowance is \$4.2 million

Our draft decision is:

19. To adopt the regulatory tax allowance for services to Essential Water and offtake customers as shown in Table 4.11 using:
- a tax rate of 30%
 - IPART's standard methodology.

We included an explicit allowance for tax because we use a post-tax WACC to estimate the allowance for a return on assets in the revenue requirement (Table 4.11). This tax allowance reflects the regulated business's forecast tax liabilities.

Table 4.11 Draft decision for the tax allowance for the 2026 determination period (\$'000, \$2025–26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Essential Water						
WaterNSW's proposed	627	660	693	725	755	3,460
Draft decision	780	811	840	870	897	4,198
<i>Difference</i>	<i>153</i>	<i>151</i>	<i>148</i>	<i>145</i>	<i>142</i>	<i>739</i>
<i>Difference (%)</i>	<i>24%</i>	<i>23%</i>	<i>21%</i>	<i>20%</i>	<i>19%</i>	<i>21%</i>
Offtake customers						
WaterNSW's proposed	2	2	2	2	2	10
Draft decision	2	2	2	2	2	10
<i>Difference</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Difference (%)</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>1%</i>	<i>0%</i>	<i>0%</i>

Note: Totals may not sum due to rounding.

Source: IPART analysis and WaterNSW, [2025 Pricing Proposal](#), September 2025, p 87.

We calculated the tax allowance for each year by applying a 30% statutory corporate tax rate adjusted for franking credits to the business's (nominal) taxable income. We applied our standard methodology to set the tax allowance. The allowance is higher than that proposed by WaterNSW mainly because we used a higher WACC.

Our tax allowance is not intended to recover WaterNSW's actual tax liability over the determination period. Rather, it reflects the liability that a comparable commercial business would be subject to. Including this allowance is consistent with our aim to set prices that reflect the fully efficient costs a utility would incur if it was operating in a competitive market. It is also consistent with the principle of competitive neutrality – that is, that a government business should compete with private business on an equal footing and not have a competitive advantage due to its public ownership.

4.10 We smoothed the revenue requirement before setting prices

We then set a target revenue for each year for each service; that is, the actual revenue we expect WaterNSW to generate from prices for that year for each service. We smoothed the revenue requirement across the determination period to make access prices constant in real terms over the 5 years. In making this decision on target revenue, we considered a range of factors, including impacts on price levels and year-on-year price changes faced by Essential Water and offtake customers, as well as the impact on WaterNSW revenue and any Pipeline subsidy provided by the NSW Government to Essential Water to cover Pipeline services.

Table 4.12 Draft decision on target revenue for the 2026 determination period (\$'000, \$2025–26)

	2026-27	2027-28	2028-29	2029-30	2030-31	Total	NPV of Total
Essential Water							
WaterNSW's proposed	29,987	29,641	30,212	29,512	29,106	148,458	133,624
Draft decision	29,707	29,775	29,690	29,690	29,670	148,532	133,624
<i>Difference</i>	-280	134	-521	177	563.83	73.70	0
<i>Difference (%)</i>	-1%	0%	-2%	1%	2%	0%	0%
Offtake customers							
WaterNSW's proposed	34	34	36	38	37	179	161
Draft decision	36	36	36	36	36	179	161
<i>Difference</i>	2	2	0	-2	-1	0	0
<i>Difference (%)</i>	4%	4%	-1%	-5%	-3%	0%	0%

Note: Totals may not sum due to rounding.

Source: IPART analysis.

4.11 A note on our use of the Consumer Price Index

We use the Consumer Price Index (CPI) to index the RAB and escalate prices.

In November 2025, the Australian Bureau of Statistics (ABS) made a full transition from a quarterly to a monthly CPI to measure the headline inflation rate.⁷⁵ The ABS will continue to publish a quarterly CPI series for the time being, and we intend to continue to use the quarterly CPI series until further notice.

We are open to stakeholder feedback on our intention to continue with the quarterly CPI series.

Chapter 5 >>

Price setting and prices,
demand and impacts

05

Summary of our draft decisions on demand, prices and bills

We will set a 5-year determination period (2026–31)

We have adopted WaterNSW's proposal for a 5-year period, which provides certainty while avoiding undue delay to price changes if circumstances change during the period.

We will continue to regulate using maximum prices (price caps)

Price caps remain appropriate given the Pipeline's stable cost structure and demand outlook.

We have adopted WaterNSW's proposed customer numbers and demand forecasts

Essential Water remains the sole major customer, with offtake usage making up less than 1% of total volumes. Forecasts reflect continued stability.

We will maintain the current two-part tariff structure

Essential Water continues to pay the Pipeline's fixed costs, while offtake customers pay only the incremental fixed cost of their connection. All customers pay usage charges that reflect variable energy costs.

We will adopt a step change to prices in 2026–27 rather than a glide path

A step change in 2026–27 better aligns revenue with the NRR, avoids early under-recovery, and delivers more stable prices over time.

We will set new maximum prices for Essential Water and offtake customers

Fixed charges will increase in 2026–27 (25.7% before inflation for Essential Water and 12.3% for offtake customers) then remain constant in real terms, while variable charges will fall by around 28-29%.

Shutdown, standby and restart charges will continue to remain unregulated

These costs are driven by Essential Water's operational decisions and are most efficiently managed through commercial negotiation between WaterNSW and Essential Water.

Additional offtakes will continue to be offered at cost under negotiated agreements

Bespoke connection costs will continue to be recovered directly from the benefiting customer.

Customer bills will increase moderately under our draft prices

Essential Water's bill will increase by around 20% plus inflation in 2026-27, while increases for offtake customers range from around 3% to 11% plus inflation. These increases are lower than under WaterNSW's proposal. We note that should the Government confirm that it will continue to provide a subsidy to Essential Water for the cost of transportation of water via the Pipeline, this subsidy would offset the bill impact for Essential Water.

This chapter sets out our draft decisions on the form of price regulation, the demand forecasts used to set prices, our approach to tariff structures, and the maximum prices and customer bill impacts for the 2026–31 determination period. Prices are derived directly from the draft notional revenue requirement set out in Chapter 4.

In assessing demand and setting prices we have considered the requirements under s14A(2) and s15(1) of the IPART Act, in particular the method of fixing maximum prices and the impact of prices on customer bills, WaterNSW's financeability and general inflation.

5.1 Form of regulation

5.1.1 We will set a 5-year determination period for the Pipeline

WaterNSW proposed a 5-year determination period,⁷⁶ which is also the default under IPART's [Water Regulation Handbook](#). We consider a 5-year period strikes an appropriate balance between providing certainty for customers and businesses and ensuring that prices can be adjusted without undue delay should there be changes in operating circumstances or costs during the period.

Our draft decision is therefore to adopt WaterNSW's proposal and set a 5-year determination period for 2026-31.

Our draft decision is:



20. To set a 5-year determination period for the Pipeline for 2026-31.

5.1.2 Price control mechanism

WaterNSW proposed to continue with a price cap form of regulation.⁷⁷ Price caps provide stability, transparency and predictability for customers, and align well with the relatively stable costs of the Pipeline and the demand outlook. IPART applied price caps in the previous determinations for the pipeline, and we consider there are no strong arguments to vary this approach.

Our draft decision is therefore to continue regulating prices using maximum prices (price caps) for the 2026 determination period.

Our draft decision is:



21. To continue regulating prices using maximum prices (price caps) for the 2026 determination period.

5.2 Demand forecasts

5.2.1 We have adopted WaterNSW's proposal of no change in customer numbers

Forecast customer numbers informs the forecast of sales volumes and are used in calculating fixed service charges. Essential Water accounts for approximately 99% of WaterNSW's total water sales, with the remainder of water sales to a small number of offtake customers.

WaterNSW notes it is not aware of any additional offtakes that are imminent or likely to be required over the next few years. WaterNSW therefore proposes no change in its customer numbers from the current determination period to the 2026 determination period, that is:⁷⁸

- Essential Water (one customer)
- offtakes (5 offtakes/4 offtake customers).

Our draft decision is to adopt WaterNSW's forecast of no change in customer numbers.

Our draft decision is:



22. To adopt WaterNSW proposal of no change in customer numbers for the 2026 determination period.

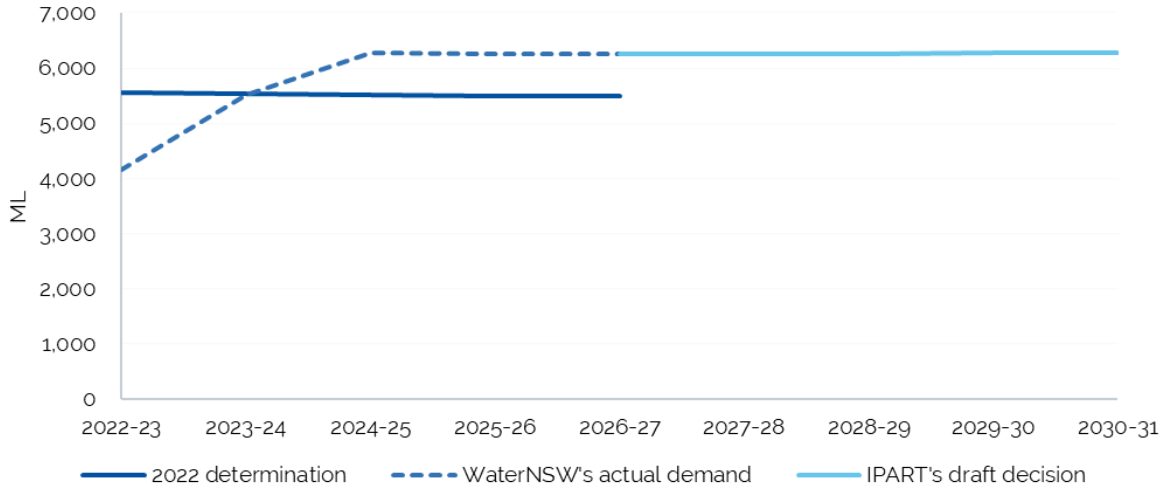
5.2.2 We have adopted WaterNSW's proposed sales volumes

WaterNSW proposed to:⁷⁹

- Adopt Essential Water's forecasts of bulk water purchase volumes for sales volumes to Essential Water. Essential Water forecasts sales of treated, chlorinated and untreated water to remain broadly consistent with actual usage in 2023–24 and 2024–25, reflecting stable customer numbers. We have assessed and accepted Essential Water's proposed demand volumes.
- For offtake sales volumes, adopt the average actual usage over 2020–21 to 2023–24. Offtake usage accounts for less than 1% of total pipeline demand.

Figure 5.1 shows IPART's decision on demand for the 2022 determination period along with actual demand and WaterNSW's forecast demand for the 2026 determination period.

Figure 5.1 Pipeline water sales over the 2022 determination period and forecast for the 2026 determination period



Source: IPART Analysis based on WaterNSW proposal.

We consider WaterNSW's proposed sales volumes are reasonable. Our draft decision is therefore to adopt WaterNSW's proposed demand forecasts for Essential Water and offtake customers, as shown in Table 5.1.

Table 5.1 Forecast demand for the 2026 determination period

	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

Source: WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, September 2025, p 92.

Our draft decision is:



23. To adopt WaterNSW's proposed demand volumes for sales to Essential Water and offtake customers for the 2026 determination period, as in Table 5.1.

5.3 Price structures

5.3.1 We will maintain the current price structures

In 2022 we adopted a two-part tariff for Essential Water and offtake customers, with WaterNSW’s fixed costs recovered through an access price (or fixed price) and variable costs recovered through a usage price.

In deciding on the allocation of fixed costs between Essential Water and offtake customers, we noted this should occur based on 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). This is reflected in Essential Water’s guaranteed right to the Pipeline’s transportation services, whereas offtake customers do not have such a guaranteed right.⁸⁰

On this basis, we decided that:

- Essential Water would pay for the fixed costs of the Pipeline
- offtake customers would pay the *incremental* fixed costs associated with their supply.

Current price structures are set out in Table 5.2.

Table 5.2 Price structures for the 2022 and 2026 determination periods

To recover:	Essential Water pays:	Offtake customers pay:
Fixed costs	Access charge (\$/day) recovering: <ul style="list-style-type: none"> • Pipeline capital costs • Fixed operating costs • Fixed electricity costs (daily charge and minimum load). 	Access charge (\$/day) recovering: <ul style="list-style-type: none"> • Incremental fixed costs of the offtake.
Variable costs	Usage charge (\$/ML) recovering the variable cost of energy.	Usage charge (\$/kL) recovering the variable cost of energy.

WaterNSW proposes to retain the current pricing structures from the 2022 Determination for the 2026 determination period.⁸¹

We consider there are no material changes in circumstances that would warrant moving away from this approach, and that the two-part tariff structures continues to efficiently recover costs.

Our draft decision is therefore to maintain the tariff structures introduced in 2022: a two-part tariff for both Essential Water and for offtake customers.

Our draft decision is:



24. To maintain the two-part tariff structures introduced in 2022 for Essential Water and offtake customers, as in Table 5.2.

5.4 Price path for the 2026–31 period

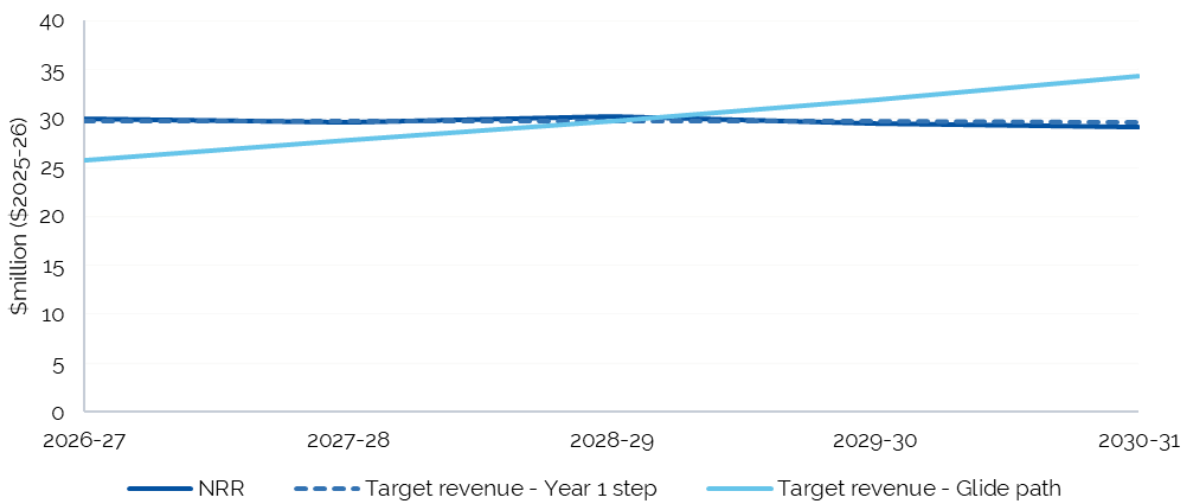
5.4.1 Our draft decision is to adopt a one-off step change to prices in 2026-27

WaterNSW proposed a glide path approach to setting prices, with access charges set to increase by a fixed percentage in each year.⁸² No justification for this approach was provided.

We consider that a one-off step change to prices in 2026-27, with prices increasing by inflation only in the next 4 years would be preferable, for the following reasons:

1. A glide-path is useful to manage bill impacts on Essential Water and end-use customers. However, on the assumption that the NSW Government will continue to subsidise pipeline costs to Essential Water, this would mitigate any bill impacts on Essential Water and its end use customers.
2. A glide path would mean under-recovery of the notional revenue requirement (NRR) in the earlier years, followed by over-recovery in the latter years (see Figure 5.2). This could mean that a material price adjustment may be required at the start of the next regulatory period.
3. Our analysis found that both the benchmark and actual financeability tests perform materially worse in the early years under a glide path, reflecting the deliberate under-recovery of the NRR in those years. In contrast, the year-one step adjustment significantly strengthens the early-period results across the key cash-flow metrics, improving both interest coverage and Funds-From-Operations (FFO) based measures. While the Real FFO/Net Debt ratio does not reach the benchmark target under either option, the step adjustment delivers a consistently higher ratio with an improving trajectory, and therefore provides a materially stronger and more stable financeability position over the determination period.

Figure 5.2 IPART's draft decision on target revenue and NRR under a one-off step change compared to a glide path approach (\$million, \$2025-26)



Source: IPART Analysis.

On this basis, we have decided to adopt a one-off step change rather than a glide path like that proposed by WaterNSW.

Our draft decision is:



25. To adopt a one-off step change in target revenue and access charges, rather than a glide path as proposed by WaterNSW.

We are interested in stakeholder views on our proposed price path.

Seek Comment



1. Do you prefer a one-off step change to prices in 2026-27 (plus inflation), or smaller increases (plus inflation) in each of the 5 years of the determination period?

5.5 Draft maximum prices

5.5.1 Prices for Essential Water

WaterNSW proposed to increase the fixed charge for Essential Water by 28.6% before inflation over the period and to decrease the variable charge by 26.9% before inflation.⁸³

Table 5.3 shows our draft prices for Essential Water, not including inflation. Under our draft prices, the fixed charge for Essential Water would increase by 25.7% before inflation in 2026-27 and then remain constant, while the variable charge would decrease by 28.8% before inflation.^a

Under both the WaterNSW proposal and our draft decision, the increase in access charges coupled with the decrease in usage charges reflect changes in the underlying fixed and variable costs, with higher fixed costs and lower variable costs. This is explained further in Chapter 3.

Table 5.3 Water transportation prices for Essential Water (\$2025-26)

	2025-26 (current)	2026-27	2027-28	2028-29	2029-30	2030-31	Change 2025-26 to 2030- 31
WaterNSW proposal							
Access charge (\$/day)	60,649.76	63,780.14	67,072.09	70,533.96	74,174.50	78,002.95	28.6%
Usage charge (\$/ML)	420.00	311.58	309.15	311.82	311.32	307.19	-26.9%
IPART draft decision							
Access charge (\$/day)	60,649.76	76,220.56	76,220.56	76,220.56	76,220.56	76,220.56	25.7%
Usage charge (\$/ML)	420.00	301.72	300.30	298.93	298.74	295.52	-29.6%

Source: WaterNSW, [Pricing proposal to the Independent Pricing and Regulatory Tribunal](#) | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, September 2025, p 99; and IPART analysis.

^a See section 4.11 for a note on our use of the Consumer Price Index to index the RAB and escalate prices.

Our draft decision is:



26. To set access and usage charges for Pipeline services to Essential Water set out in Table 5.3.

5.5.2 Prices for offtake customers

For offtake customers WaterNSW proposed to increase the fixed charge by 18.7% before inflation over the period, and to decrease the variable charge by 26.9%.

Table 5.4 shows our draft prices for offtake customers. Under our draft prices, the fixed charge for offtake customers would increase by 12.3% before inflation in 2026-27 and then remain constant, while the variable charge would decrease by 28.2% before inflation.

As with the prices for Essential Water, the increase in access charges and the decrease in usage charges reflect changes in the underlying fixed and variable costs, with higher fixed costs and lower variable costs. See Chapter 3 for further detail.

Table 5.4 Water transportation prices for offtake customers (\$2025-26)

	2025-26 (current)	2026-27	2027-28	2028-29	2029-30	2030-31	Change 2025-26 to 2030-31
WaterNSW proposal							
Access charge (\$/day)	20.21	20.91	21.64	22.40	23.18	23.99	18.7%
Usage charge (\$/kL)	0.42	0.31	0.31	0.31	0.31	0.31	-26.9%
IPART draft decision							
Access charge (\$/day)	20.21	22.70	22.70	22.70	22.70	22.70	12.3%
Usage charge (\$/kL)	0.42	0.30	0.30	0.30	0.30	0.30	-29.6%

Source: WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, September 2025, p 100; and IPART analysis.

Our draft decision is:



27. To set access and usage charges for Pipeline services to offtake customers as set out in Table 5.4.

We invite stakeholder views on our proposed draft access and usage charges.

Seek Comment



2. What are your views on our draft decisions on access charges and usage charges?

5.5.3 Prices for shutdown, standby or restart

Under WaterNSW's raw water supply agreement with Essential Water, Essential Water may request the Pipeline operator to cease pipeline operations. These requests can give rise to additional costs under the O&M contract, such as costs associated with placing the pipeline into shutdown mode or restarting it. Consistent with the approach in the 2019 and 2022 determinations,⁸⁴ WaterNSW proposed that these shutdown, standby and restart charges continue to be set through commercial negotiation rather than regulation.⁸⁵

The costs associated with shutdown, standby and restart services are driven by Essential Water's operational decisions, and therefore are most efficiently managed where Essential Water bears them directly. This is consistent with the principle that Essential Water should select the most efficient mix of water sources, and choose to incur shutdown-related costs only where it lowers its overall cost of supply.

In previous reviews, we found that setting a regulated maximum price risked establishing expectations that these costs could be automatically passed through to Essential Water's customers, which may not encourage efficient operational decisions.

Essential Water did not comment on this in [its submission](#) on our Issues Paper. However, during our 2022 review of the Pipeline prices, Essential Water submitted that it was comfortable to continue with the current arrangement for shutdown, standby and restart charges to be negotiated on a commercial basis.⁸⁶

For these reasons, we consider an unregulated, commercial arrangement between WaterNSW and Essential Water remains the most efficient method for addressing costs associated with shut-down, standby or restart. This also preserves commercial flexibility for both parties.

Our draft decision is therefore to continue to defer regulation of shutdown, standby and restart charges.

We note that IPART can, at a future date, choose to determine maximum prices for the recovery of costs associated with shutdown, standby and restart services. We encourage Essential Water to contact IPART if it was concerned about WaterNSW's charges for these services.

Our draft decision is:



28. To continue to defer regulation of charges for the recovery of costs associated with shutdown, standby and restart of the Pipeline.

Seek Comment



3. Does Essential Water support IPART's draft decision to continue to defer regulation of charges for the recovery of costs associated with shutdown, standby and restart of the Pipeline?

5.5.4 Capital charge for additional offtakes

WaterNSW proposed to continue offering to install additional offtakes at cost over the 2026 determination period, using the same negotiated service agreement framework that IPART allowed in the 2022 determination.⁸⁷

WaterNSW submitted that the location and specifications of any new offtake must meet individual customer needs, and therefore the associated capital cost would generally need to be negotiated between the parties. As part of those negotiations, customers may choose whether to pay the capital cost upfront, via an annual charge, or through a combination of both. Where capital costs exceed those used to set regulated prices for existing offtakes, WaterNSW would also charge a variable fee representing the marginal cost of delivering water to the new offtake.⁸⁸

Under WaterNSW's proposal, customers who pay the capital charge upfront would thereafter only pay the relevant variable usage charge for water delivered. WaterNSW emphasised that these arrangements reflect the bespoke nature of new offtake connections, and that they proposed to retain the current unregulated, commercially negotiated approach.⁸⁹

We consider it appropriate that new offtake connections, which are customer-initiated and location-specific, continue to be provided through commercial negotiation rather than through regulated prices. The capital cost of constructing a new offtake is driven by customer-specific requirements, and therefore is not suitable for a uniform or administratively-determined regulated price. The current arrangements also means that the costs of a new connection are ring-fenced to the customer who benefits from it and not shared across Essential Water or other users.

This approach remains consistent with IPART's position in the 2019 and 2022 determinations, under which we allowed bespoke offtake services to be priced through negotiated agreements where WaterNSW installs additional offtakes at cost and applies only the marginal variable charge thereafter.⁹⁰

Our draft decision is therefore to continue to defer regulation of capital charges for additional offtakes, and allow WaterNSW to continue offering additional offtakes at cost under negotiated agreements. The associated variable charge would subsequently apply in line with WaterNSW's proposal.

We note that IPART can, at a future date, choose to determine maximum prices for the recovery of capital costs associated new offtakes. We encourage potential offtake customers to contact IPART if they are concerned about WaterNSW's charges for these services.

Our draft decision is:



29. To continue to defer regulation of capital charges for additional offtakes, and allow WaterNSW to continue offering additional offtakes at cost under negotiated agreements.

Seek Comment



4. Do stakeholders support IPART's draft decision to continue to defer regulation of capital charges for additional offtakes, and allow WaterNSW to continue offering additional offtakes at cost under negotiated agreements?

5.6 Customer bill impacts

5.6.1 Essential Water

Under our draft prices, Essential Water's total bill increases by 19.8% before inflation over the 2026 determination period. This is lower than the 22.7% bill increase in WaterNSW's proposal, and materially lower than the increase of 38.5% that would occur if we adopted the glide path approach in WaterNSW's proposal (due to the higher NRR compared with WaterNSW's proposal). Draft bills for Essential Water are set out below in Table 5.5.

Table 5.5 Essential Water's draft bills (\$'000, \$2025-26)

	2025-26 (current)	2026-27	2027-28	2028-29	2029-30	2030-31	Change 2025-26 to 2030-31
WaterNSW proposal							
Access charges	22,137	23,280	24,548	25,745	27,074	28,471	28.6%
Usage charges	2,625	1,948	1,933	1,950	1,948	1,923	-26.8%
Total bill	24,762	25,228	26,482	27,695	29,022	30,394	22.7%
IPART draft decision							
Access charges	22,137	27,821	27,897	27,821	27,821	27,821	25.7%
Usage charges	2,625	1,886	1,878	1,870	1,869	1,850	-29.5%
Total bill	24,762	29,707	29,775	29,690	29,690	29,670	19.8%

Source: WaterNSW, [Pricing proposal to the Independent Pricing and Regulatory Tribunal](#) | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, September 2025, p 101; and IPART analysis

Seek Comment



5. What are the impacts on Essential Water, its customers and the NSW Government of the draft bills for Essential Water?

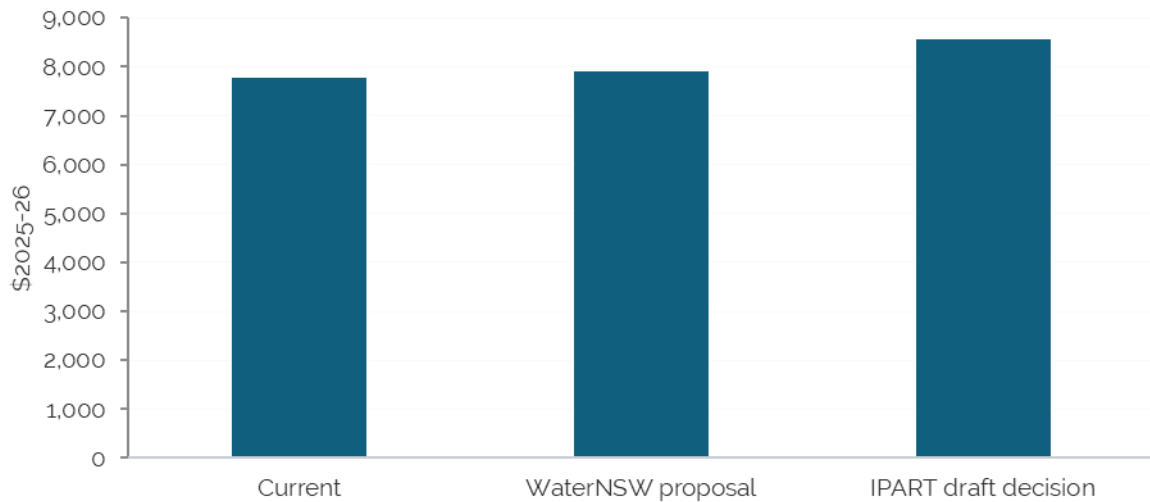
5.6.2 Offtake customers

Under our draft prices, the annual bills for off-take customers would increase over the 2026 determination period by:

- 11.2% before inflation for small customers using around 0.5 ML per year, compared with 17.4% under WaterNSW's proposal
- 10.1% before inflation for medium customers using around 1 ML per year, compared with 16.2% under WaterNSW's proposal
- 3.0% before inflation for large customers using around 5 ML per year, compared with 8.6% under WaterNSW's proposal.

Figure 5.3 compares current bills with bills proposed by WaterNSW and bills under IPART's draft decisions.

Figure 5.3 Annual bills for medium customers (1 ML) in \$2025-26 in 2026-27



Source: IPART analysis.

Table 5.6 shows annual bills before inflation for offtake customers under WaterNSW's proposal, and Table 5.7 shows annual bills under our draft prices.

Table 5.6 Bill impacts for offtake customers under WaterNSW's proposal (\$2025-26)

	2025-26 (current)	2026-27	2027-28	2028-29	2029-30	2030-31	Change 2025-26 to 2030-31
Small customers (0.5 ML)							
Access charges	7,377	7,632	7,920	8,176	8,461	8,756	18.7%
Usage charges	210	156	155	156	156	154	-26.9%
Total bill	7,587	7,788	8,075	8,332	8,616	8,910	17.4%
Medium customers (1 ML)							
Access charges	7,377	7,632	7,920	8,176	8,461	8,756	18.7%
Usage charges	420	312	309	312	311	307	-26.9%
Total bill	7,797	7,944	8,229	8,488	8,772	9,064	16.2%
Large customers (5 ML)							
Access charges	7,377	7,632	7,920	8,176	8,461	8,756	18.7%
Usage charges	2,100	1,558	1,546	1,559	1,557	1,536	-26.9%
Total bill	9,477	9,190	9,466	9,735	10,017	10,292	8.6%

Source: WaterNSW, Pricing proposal to the Independent Pricing and Regulatory Tribunal | Regulated prices for the Wentworth to Broken Hill Pipeline from 1 July 2026, September 2025, pp 102-103.

Table 5.7 Bill impacts for offtake customers under IPART's draft decisions (\$2025-26)

	2025-26 (current)	2026-27	2027-28	2028-29	2029-30	2030-31	Change 2025-26 to 2030-31
Small customers (0.5 ML)							
Access charges	7,377	8,287	8,309	8,287	8,287	8,287	12.3%
Usage charges	210	151	150	149	149	148	-29.6%
Total bill	7,587	8,438	8,459	8,436	8,436	8,434	11.2%
Medium customers (1 ML)							
Access charges	7,377	8,287	8,309	8,287	8,287	8,287	12.3%
Usage charges	420	302	300	299	299	296	-29.6%
Total bill	7,797	8,588	8,610	8,586	8,585	8,582	10.1%
Large customers (5 ML)							
Access charges	7,377	8,287	8,309	8,287	8,287	8,287	12.3%
Usage charges	2,100	1,509	1,501	1,495	1,494	1,478	-29.6%
Total bill	9,477	9,795	9,811	9,781	9,780	9,764	3.0%

Source: IPART analysis.

Seek Comment



6. Are the draft bills we propose for offtake customers affordable?

5.7 Impacts on WaterNSW's financial sustainability

When setting prices, we consider the financial sustainability of the business resulting from pricing decisions. To do this, we undertake a financeability test to assess how our price decisions are likely to affect the business's financial sustainability and ability to raise funds to manage its activities, over the upcoming regulatory period.

We assessed WaterNSW's financeability over the 2026 determination by analysing its forecast financial performance, financial position, and cash flows for the benchmark business. We then forecast and assessed financial ratios for WaterNSW against our target ratios. We have calculated the indicators based on the proposed NRR and draft prices, using a WACC of 3.6%.

We did not identify a financeability concern for WaterNSW that needs to be addressed in this review. It is our view that it can remain financially sustainable and continue to provide sustainable services over the 2026 determination period.

See Appendix D for our detailed financeability analysis.

Chapter 6 >>

Performance and accountability

06

Summary of our draft decisions on performance and accountability

We have adopted WaterNSW's proposed performance outcomes and objectives but propose more specific measures and targets to improve accountability

Our draft decision is to adopt the performance outcomes proposed by WaterNSW. However, the proposed performance measures are not specific and WaterNSW has not committed to targets.

We propose to include and publish specific measures and targets in the interest of public accountability. These largely draw on information that is already collected by WaterNSW and should not impose significant additional reporting burden.

We have adopted WaterNSW's proposal to not opt in to financial incentive schemes for the 2026 determination

Our draft decision is to adopt WaterNSW's proposal to not opt in to financial incentive schemes for the 2026 determination period.

6.1 Outcomes and performance measures

Under our water regulation framework, we expect businesses to develop performance outcomes related to customers, the community and the environment. There is no set limit on how many outcomes a business must develop. For each outcome, we expect businesses to develop suitable performance measures and demonstrate a clear link between these outcomes and performance measures. This would include how the business' activities and expenditures are linked to outcomes.

In its [proposal](#), WaterNSW set out four customer outcomes and narratively described how they intended to achieve and report on these outcomes.⁹¹ Customer outcomes were developed through engagement with Essential Water, the Pipeline's primary customer, and other stakeholders. The performance of the Pipeline is also governed through a commercial [Raw Water Supply Agreement](#) between WaterNSW and Essential Water.

Our draft decisions are:



30. To adopt WaterNSW's proposed performance outcomes.

31. To propose performance measures and targets as shown in Table 6.1.

6.1.1 WaterNSW's performance outcomes were developed through stakeholder consultation

It is important that a business' performance outcomes and measures are developed through robust customer consultation and reflect customer values and priorities. Involving customers to set the priorities and outcomes that matter most is essential if water businesses are to identify better ways of delivering services.

WaterNSW developed its customer outcomes in consultation with its primary customer, Essential Water - which uses over 99% of the water from the Pipeline. WaterNSW also engaged with their 5 offtake customers, the Barkandji Native Title Group Aboriginal Corporation, Broken Hill Council and Wentworth Shire Council.

IPART considers WaterNSW's proposal to be appropriately consulted on. In its submission on our [Issues Paper](#), Essential Water stated it was satisfied with how WaterNSW engaged on its pricing proposal and accepted WaterNSW's proposed outcomes.⁹² Essential Water also confirmed its existing operating relationship with WaterNSW is working well and requires no major improvement. WaterNSW submitted that the other stakeholders mentioned above also accorded with its proposed measures.⁹³

6.1.2 Performance measures should be specific and better tracked with targets

WaterNSW described customer outcomes and measures in its pricing proposal.⁹⁴ We assessed WaterNSW's proposed performance outcomes and measures using the criteria set out in our [Water Regulation Handbook](#). Overall, we found that WaterNSW's proposed performance outcomes were broadly appropriate. However, many of the performance measures were not specific enough and did not allow for sufficiently robust tracking. In addition, WaterNSW did not propose targets for many of its proposed performance measures.

IPART has proposed amended measures and targets to improve specificity in Table 6.1. We recognise there are few public customers, and WaterNSW submitted these customers are satisfied with current arrangements⁹⁵. However, we consider it appropriate to include and publish specific measures and targets in the interest of public accountability, particularly as the operation of the Pipeline is publicly funded.

The metrics required to report on these proposed measures and targets are already captured in WaterNSW's Annual Information Return to IPART and other sources. As such, they should impose minimal additional reporting burden on WaterNSW.

6.1.3 Expenditure should be tracked and linked to outcomes.

WaterNSW's proposal does not link expenditure to outcomes. In the previous two determinations we found there was limited benefit in setting output measures that focus on capital projects or expenditure as the Pipeline was still new and forecast operating and capital expenditure were relatively small. We now have five years of performance data for the Pipeline. As such, IPART considers there is now value in setting performance measures that focus on expenditure. IPART has proposed the inclusion of expenditure measures and targets under WaterNSW's Outcome 3 ('WaterNSW will be efficient and keep its costs as low as practical').

6.1.4 Draft amended performance outcomes, measures and targets for WaterNSW

Table 6.1 outlines our draft modifications to performance outcomes, measures and targets. The following sections provide more detail on IPART's proposed amendments.

Table 6.1 Draft amended performance outcomes, measures and targets for WaterNSW

Performance outcome	Performance measure	Performance target and trend
WaterNSW will provide secure and reliable water delivery	Frequency and duration of unplanned interruptions to Pipeline service	Target: Minimal shutdowns Trend: WaterNSW reports zero instances of any shutdowns
	Frequency and duration of planned interruptions to Pipeline service	Target: Minimal shutdowns Trend: WaterNSW reports zero instances of any shutdowns
	Monthly volume of water delivered to Essential Water	Target: Should meet quantity demanded by Essential Water, up to the peak demand amount agreed in the Raw Water Supply Agreement with Essential Water Trend: Meets quantity demanded by Essential Water
WaterNSW to play its part in ensuring optimal water quality	Monthly volume of water delivered to offtakes	Target: Should meet quantity demanded by offtake customers Trend: Meets quantity demanded by offtake customers
	Water quality sampling and monitoring from the River Murray Pumping Station through to the outlet of the Bulk Water Storage	Target: Quality of water delivered shall not significantly reduce from the quality of the water sourced from the River Murray Trend: Data not currently available to IPART
WaterNSW will be efficient and keep its costs as low as practical	Reporting of algal blooms and other events with adverse impacts on water quality	Target: Timely reporting of blooms Trend: Data not currently available to IPART
	Proportion of energy usage by pump station at off-peak, shoulder and peak times each month	Target: Minimal pumping during peak price periods. Trend: Around 98% of the pumping occurs during off-peak and shoulder periods, with approximately three-quarters (73%) of the pumping occurring during off-peak periods, and one quarter (25%) during shoulder periods. Very little (2%) of the pumping occurs at peak times.

Performance outcome	Performance measure	Performance target and trend
	Efficiency targets proposed by WaterNSW	Target: cumulative efficiency target of 1% of SPV support operating expenditures per annum Trend: Data not currently available to IPART
WaterNSW to continue to keep customers in the loop to promote peak operations and support Essential Water in delivering optimal outcomes for end use customers	Customer satisfaction	Target: Customers are satisfied with WaterNSW Trend: Essential Water confirmed that the current operating relationship and performance was working very well and required no major improvement. Offtake customers also reported being satisfied with the service
	Customers are notified of the expected rectification time within 24 hours of WaterNSW becoming aware that an interruption has occurred	Target: 95% of unplanned service interruptions Trend: WaterNSW reports zero instances of any shutdowns.
	Customers are notified at least 7 days before commencement of the interruption	Target: 100% of planned service interruptions Trend: WaterNSW reports zero instances of any shutdowns

Outcome 1: WaterNSW will provide secure and reliable water delivery

Security of supply was highlighted as a high customer priority in consultation as the primary purpose of the Pipeline is to supply water to the population of Broken Hill.⁹⁶ IPART considers WaterNSW is meeting this outcome as they report zero instances of shutdowns of the Pipeline thus far.⁹⁷ WaterNSW also reported an external audit found performance of the pipeline and asset management met a high standard.⁹⁸

WaterNSW proposed to report on this outcome through 'existing mechanisms'. In particular, WaterNSW noted they report a set of performance data to IPART as part of their Annual Information Return (AIR). IPART is proposing to formalise some of the data already provided in the AIR as performance measures to promote public accountability. These inclusions should result in minimal additional reporting burden as this data is already provided to IPART.

We note the Pipeline draws water from a system which faces numerous water availability challenges.^{99,a} Under section 15(f) of the IPART Act we are required to consider ecologically sustainable development in our determinations. While we have not proposed inclusion of specific measures related to ecologically sustainable development we note WaterNSW's pricing proposal states it already monitors the water system and undertakes drought planning. We encourage WaterNSW to use those exercises to support water system management.

^a This includes the Menindee Lakes, although the Pipeline does not directly rely on that water system. Stakeholder comments raised concerns about potential increased water takes by irrigators upstream of the Lake now that Broken Hill's water supply is decoupled from that system and not as stringently monitored. This increased upstream irrigation use has the potential to disrupt the ecology of the Menindee Lakes system.

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

WaterNSW's proposal states a guiding principle is that water delivered through the Pipeline shall not significantly reduce in quality from water sourced from the River Murray.¹⁰⁰ WaterNSW did not propose any performance measures or targets codifying this principle. IPART is proposing to formalise this principle in the interest of public accountability. We note this should impose minimal additional reporting burden as water quality sampling and monitoring points already exist throughout the pipeline system.

WaterNSW also proposed to report algal events that could have impacts on water quality.¹⁰¹ IPART is proposing to set specific measures and targets to determine whether notification occurs within reasonable timeframes. Essential Water, during stakeholder engagement with WaterNSW, noted it felt confident in existing formal and informal channels of communication.¹⁰²

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

IPART considers public accountability for this outcome to be important as the costs of the Pipeline has been covered through a subsidy from the NSW Government. Essential Water also stated that if the funding from the subsidy was to reduce or cease, affordability would become the number one priority outcome for its customers.¹⁰³

As noted above, the scope of reporting in previous determinations was limited on the basis there was not sufficient historical expenditure data. There are now five years of historical expenditure data, which IPART has examined to develop specific measures of expenditure efficiency. The ongoing costs of the Pipeline are still relatively small and variable. As such, IPART proposes to keep expenditure outcomes flexible, and at a high level, for this determination. This will avoid WaterNSW pursuing inflexible targets and reporting values which are skewed by large relative movements on small bases.

WaterNSW proposed to report on this outcome through 'existing reporting'. IPART is proposing more specific measures that draw on existing reporting. We consider this will improve public accountability of the public funds that are ultimately used to cover the costs of the Pipeline. IPART's proposed performance measures focus on energy and specific operating expenditures for the Special Purpose Vehicle responsible for the Pipeline. These comprise WaterNSW's two largest controllable costs for the Pipeline.^b

For energy costs, WaterNSW provided data on the distribution of its energy use across peak, off-peak and shoulder price periods to report on energy cost efficiency.¹⁰⁴ IPART proposes to include energy use distribution as a specific performance measure to support IPART's analysis and efficient use of energy.

For operating expenditure, WaterNSW has committed to a cumulative efficiency target of 1% per annum of Special Purpose Vehicle support operating expenditures. We consider this a reasonable and realistic target and propose to include this commitment as a specific performance target.

^b Operation and maintenance of the pipeline was contracted out through a competitive tender. These costs are now determined by the contract and largely out of WaterNSW's control.

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

WaterNSW has proposed to report on this outcome through existing mechanisms as developed in its Customer Engagement Policy.¹⁰⁵ Essential Water has indicated it is satisfied with WaterNSW's customer engagement and requires no major improvements. Offtake customers similarly indicated their satisfaction with current arrangements.¹⁰⁶

IPART is proposing to include a requirement to conduct stakeholder engagement as a broad performance measure. IPART considers it fit for purpose to keep this measure non-specific given the Pipeline's operating context. The Pipeline has one primary customer, Essential Water, who consumes over 99% of the water from the Pipeline. Essential Water and WaterNSW have both indicated they have a mature working relationship and have confidence in existing communication channels.¹⁰⁷

IPART has also included standard performance measures around notification of interruptions, including for offtake customers. WaterNSW reports zero shutdowns of the Pipeline since it was commissioned.

Seek Comment



7. What are your views on WaterNSW's proposed performance metrics? Could these be improved?

6.2 Financial incentive schemes

WaterNSW did not elect to be considered for any financial incentive schemes for the upcoming determination period in its September 2025 pricing proposal.

Our water regulation framework includes 3 different incentive schemes that aim to encourage water businesses to continually seek more efficient ways of delivering services and share the benefits with customers. It includes:

1. operating efficiency benefit sharing scheme (EBSS)
2. capital efficiency sharing scheme (CESS)
3. outcome delivery incentives (ODIs).

Incentive schemes reward businesses that outperform their forecasts for operating expenditure, capital expenditure, and/or service delivery, encouraging businesses to continuously improve customer value over the medium- to long-term.

More information on how these schemes operate is available in our [Water Regulation Handbook](#).

6.3 Monitoring and credibility

After setting revenues, performance targets and incentives, we monitor ongoing performance through a range of tools to make sure businesses deliver on their commitments to customers. Specifically, we track business performance in terms of customer outcomes and expenditure. We also collaborate with other NSW regulators so that businesses promote customers' long-term interests by responding to all regulatory requirements efficiently.

6.3.1 Monitoring compliance with pricing determinations

Under the IPART Act, IPART may monitor the performance of WaterNSW for the purposes of establishing, and reporting to the Minister, on the level of compliance by WaterNSW with an IPART pricing determination.¹⁰⁸ This ongoing role provides another layer of monitoring and accountability for WaterNSW to comply with its pricing determination. We collect an Annual Information Return from WaterNSW, which includes the prices they are charging.

6.3.2 Monitoring outcome performance

WaterNSW should report on its progress

As part of our water regulation framework, we expect businesses to publish annual updates on their progress against outcome commitments. The aim of annual progress updates is to maximise accessibility and visibility for customers.

WaterNSW is not proposing to publish annual updates. However, IPART considers this to be appropriate as the Pipeline only has one primary customer, Essential Water, who already has accessibility and visibility on commercially relevant information through its [Raw Water Supply Agreement](#) with WaterNSW.

Performance results in an online dashboard

IPART also monitors performance to encourage the businesses to maintain a customer focus, improve their services and deliver on outcome commitments included in their proposals. Publishing progress on these commitments increases public visibility and leverages reputational incentives for businesses to deliver on their promises.

We will publish a user-friendly online performance dashboard that tracks businesses' progress against their outcome commitments. Public access to this information promotes greater accountability and allows businesses and customers to compare performance outcomes across different water businesses to the degree that the data aligns.

Public access to this information promotes greater accountability and allows businesses and customers to compare performance outcomes across different water businesses to the degree that the data aligns. However, we also note that the aspects of performance related to quality of service to Essential Water are to a great extent a commercial matter between WaterNSW and Essential Water and are regulated through their Raw Water Supply Agreement. We invite these businesses and other stakeholder to comment on our proposal to publish Pipeline performance data.

The online dashboard will be designed to be easily accessible to all interested stakeholders. It will contain current and past information for all price-regulated businesses on:

- the grades that businesses received for current and past pricing proposals
- customer-informed outcome commitment targets and progress against achieving those targets in the current and past determination period, with 'traffic lights' to signal progress
- trends for operating and capital expenditure, including deeper levels of information on several standardised cost categories.

The dashboard will be accessible via our website once it has been established. For WaterNSW, we expect the dashboard to be available after the conclusion of this price review.

Seek Comment



8. What are your views on IPART publishing performance results in an online dashboard?

6.3.3 Annual licence audits

IPART has a role in auditing WaterNSW's compliance with the requirements of its Operating Licence.¹⁰⁹ As part of this function, we collect annual performance information provided by the business on measures relating to water quality, system continuity and reliability, environmental performance and customer service.

Our annual operating licence audit reports are provided to the Minister for Water and are published on our [website](#) for public access.

The information collected through these audits may be published on our online dashboard for transparency and to improve public confidence. This would provide additional incentives for businesses to perform according to regulatory and stakeholder expectations.

Appendices

Appendix A >>

Matters considered by IPART



A.1 Matters under section 14A(2) of the IPART Act

Where the Tribunal uses a methodology to fix prices, section 14A(3) of the IPART Act requires us to report on what regard we have had to the matters listed in section 14A(2). These matters are:

- a. the government agency's economic cost of production
- b. past, current or future expenditures in relation to the government monopoly service
- c. charges for other monopoly services provided by the government agency
- d. economic parameters, such as –
 - i discount rates, or
 - ii movements in a general price index (such as the Consumer Price Index), whether past or forecast
- e. a rate of return on the assets of the government agency
- f. a valuation of the assets of the government agency
- g. the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment
- h. the need to promote competition in the supply of the service concerned
- i. considerations of demand management (including levels of demand) and least cost planning.

Table A.1 outlines the sections of the report that address each matter.

Table A.1 Consideration of section 14A(2) matters by IPART

Section 14A(2)	Report reference
a. the government agency's economic cost of production	Chapters 3, 4 and 5 set out WaterNSW's total efficient costs to deliver its regulated services over the determination period.
b. past, current or future expenditures in relation to the government monopoly service	Chapter 3 sets out our assessment and draft decisions on WaterNSW's past, current and future efficient expenditure.
c. charges for other monopoly services provided by the government agency	Chapter 5 sets out our decisions on WaterNSW's prices for monopoly services.
d. economic parameters, such as – <ul style="list-style-type: none"> • discount rates, or • movements in a general price index (such as the Consumer Price Index), whether past or forecast 	Chapter 4 sets out how we have indexed WaterNSW's regulatory asset base to account for inflation, and Chapter 5 set out how we have set prices in real terms (before inflation) to raise revenue that recovers efficient costs over the determination period in net present value terms. The Draft Determination sets out how prices would be escalated during the determination period to account for inflation.
e. a rate of return on the assets of the government agency	Chapter 4 and Appendix C explain our calculation and application of a weighted average cost of capital that would allow a benchmark business to earn a rate of return on assets reflective of current market conditions.
f. a valuation of the assets of the government agency	Chapter 4 sets out the value of WaterNSW's assets on which we consider it should earn a return on capital and an allowance for regulatory depreciation.
g. the need to maintain ecologically sustainable development (within the meaning of section 6 of the <i>Protection of the Environment Administration Act 1991</i>) by appropriate pricing policies that take account of all the feasible options available to protect the environment	Chapter 3 sets out WaterNSW's efficient expenditure that allows it to meet its regulatory requirements, including its environmental obligations.

Section 14A(2)	Report reference
h, the need to promote competition in the supply of the service concerned	Chapters 3, 4 and 5 set out our draft decisions on efficient benchmark expenditure, the notional revenue requirement and cost-reflective prices that incorporate a return on capital and tax allowances that maintains competitive neutrality.
i. considerations of demand management (including levels of demand) and least cost planning	Chapter 3 outlines how we have assessed WaterNSW's efficient expenditure required to deliver its regulated services at least cost.

A.2 Matters under section 15(1) of the IPART Act

IPART is required under section 15(1) of the IPART Act to have regard to the following matters in making determinations and recommendations:

- a. the cost of providing the services concerned
- b. the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services
- c. the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales
- d. the effect on general price inflation over the medium term
- e. the need for greater efficiency in the supply of services as to reduce the costs for the benefit of consumers and taxpayers
- f. the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all feasible options available to protect the environment
- g. the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets
- h. the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body
- i. the need to promote competition in the supply of services concerned
- j. considerations of demand management (including levels of demand) and least cost planning,
- k. the social impact of the determinations and recommendations
- l. standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

Table A.2 outlines the sections of the report that address each matter.

Table A.2 Consideration of section 15(1) matters by IPART

Section 15(1)	Report reference
a. Cost of providing the services	Chapters 3 and 4 set out our assessment of WaterNSW's total efficient benchmark costs to deliver its regulated services over the determination period.
b. Protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services	Chapters 3, 4, and 5 explain our draft decisions on efficient benchmark expenditure, the notional revenue requirement and cost-reflective prices that will protect consumers from abuses of monopoly power.

Section 15(1)	Report reference
c. Appropriate rate of return and dividends on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales	Chapter 4 and Appendix C explain our calculation and application of a weighted average cost of capital that would allow a benchmark business to earn a rate of return on assets reflective of current market conditions that would enable the business to return an appropriate level of dividends.
D. Effect on general price inflation over the medium term	Our concurrent decision on draft prices for Essential Water notes our understanding that the NSW Government will continue to provide a subsidy to Essential Water to cover the cost of Pipeline services. On this basis, there will be no impact on general inflation as a result of our draft decisions for the Pipeline.
e. Need for greater efficiency in the supply of services to reduce costs for the benefit of consumers and taxpayers	Chapter 3 sets out our draft decision on WaterNSW's efficient benchmark expenditure. These decisions aim to encourage WaterNSW to contain costs and strive for more cost efficient outcomes for the benefit of its customers.
f. The need to maintain ecologically sustainable development (within the meaning of section 6 of the <i>Protection of the Environment Administration Act 1991</i>) by appropriate pricing policies that take account of all the feasible options available to protect the environment	Chapter 3 sets out our draft decisions on WaterNSW's efficient benchmark expenditure that will allow it to meet all its regulatory requirements, including its environmental obligations.
g. The impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and the impact of any need to renew or increase relevant assets	Chapter 4 sets out how we have provided WaterNSW with an allowance for an appropriate return on and of capital and Appendix D sets out our assessment of its financeability.
h. The impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body	Chapters 3, 4 and 5 set out our draft decisions on the efficient benchmark expenditure, the notional revenue requirement, and cost-reflective prices for Pipeline services that will allow funding of operational contracts that WaterNSW has entered into.
i. The need to promote competition in the supply of the services concerned	Chapters 3, 4 and 5 set out our draft decisions on efficient benchmark expenditure, the notional revenue requirement and cost-reflective prices that incorporate a return on capital and tax allowances that maintains competitive neutrality.
j. Considerations of demand management (including levels of demand) and least cost planning	Chapter 3 outlines how we have assessed WaterNSW's efficient expenditure required to deliver its regulated services at least cost.
k. The social impact of the determinations and recommendations	Chapter 5 sets out the potential impact of our draft pricing decisions on WaterNSW and its customers.
l. Standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise)	Chapter 3 sets out our considerations of WaterNSW's efficient benchmark expenditure so it can meet the required standards of quality, reliability and safety in delivering its services, and Chapter 6 sets out our draft decisions on outcomes and performance measures.

A.3 Considerations under section 16 of the IPART Act

Section 16 of the IPART Act provides:

If the Tribunal determines to increase the maximum price for a government monopoly service or determines a methodology that would or might increase the maximum price for a government monopoly service, the Tribunal is required to assess and report on the likely annual cost to the Consolidated Fund if the price were not increased to the maximum permitted and the government agency concerned were to be compensated for the revenue foregone by an appropriation from the Consolidated Fund.

Under section 16 of the IPART Act, we must report on the likely impact on the Consolidated Fund if prices are not increased to the maximum levels permitted. If this is the case, then the level of tax equivalent and dividends paid to the Consolidated Fund would fall. The extent of this fall would depend on Treasury's application of its financial distribution policy and how the change affects after-tax profit.

Our financial modelling is based on a tax rate of 30% for pre-tax profit and dividend payments at 70% of after-tax profit. A \$1 decrease in pre-tax profit would result in a loss of revenue to the Consolidated Fund of 49 cents in total, which is 70% of the decrease in after-tax profit of 70 cents.

Appendix B >>

Assessment of WaterNSW's
pricing proposal

B

Summary of draft decisions resulting from WaterNSW's pricing proposal

We grade WaterNSW's pricing proposal as Standard

Our draft decision is to grade WaterNSW's pricing proposal as Standard, as it met the guiding principles in our Water Regulation handbook for this grade.

This decision is consistent with our preliminary grading in our Issues Paper and with WaterNSW's self-assessment

IPART sets maximum prices that WaterNSW can charge its customers for bulk water services for the River Murray to Broken Hill Pipeline, under the IPART Act. In setting these draft maximum prices, we assess WaterNSW's pricing proposal and make decisions to protect customers from the abuse of monopoly powers, so that the prices they pay are fair, efficient and aligned with their best interests.

B.1 We applied our water regulation framework

When assessing WaterNSW's proposal, we used the framework set out in our [Water Regulation Handbook](#) based on customers, costs and credibility, and which provides a system for assessing proposals against the considerations in the IPART Act we must or may take into account.

Our water regulation framework aims to encourage each water business to develop pricing proposals that:

- promote its customers' interests
- demonstrate that customer needs and preferences are delivered in the most cost-efficient manner
- enhances the credibility of the water business in the eyes of its stakeholders.

We expect proposals to explain how a business will achieve efficient delivery of services that meet required standards. The framework is centred around water businesses developing pricing proposals that promote customer value. It encourages water businesses to actively involve and engage with their customers, and to bring customers into the decision-making process when they set outcomes. This is essential if water businesses are to identify better ways of delivering their services that align with their customers' preferences.

The framework is underpinned by 12 guiding principles which both IPART and water businesses use to develop and assess pricing proposals.

Figure B.1 The water regulation framework and the 12 guiding principles



Source: IPART, [Water Regulation Handbook](#), July 2023, p. 2.

We recognise the current round of price reviews is the first time WaterNSW has submitted pricing proposals under the new framework, which we are continuing to improve with the help of all stakeholders to achieve our shared goal of delivering customer value.

Chapters 2 to 6 explain our detailed, bottom-up assessment of each component of WaterNSW's pricing proposal. Critically, we also assess proposals top-down based on the grading rubric in our [Water Regulation Handbook](#), outlined in Appendix E. There are 3 possible grades for the pricing proposal: Standard, Advanced or Leading (see Box B.1). Our grading of the proposal informs how we undertake our price review. A Standard grading means we will conduct our usual comprehensive assessment of the pricing proposal while an advanced proposal may require less intensive examination where extensive and well-justified evidence is provided.

Box B.1 There are 3 possible grades under our water regulation framework

The grades for a water business's pricing proposal are:

- **Leading** – for businesses that are industry leaders in understanding their customers, innovating to deliver services customers want and driving costs efficiencies. The business also demonstrates how it delivers significant improvement in customer value through a combination of quantitative and qualitative evidence.
- **Advanced** – for businesses that demonstrate very strong understanding of their customers and are broadly at the cost efficiency frontier.
- **Standard** – for businesses that conduct meaningful customer engagement and have a credible path towards the cost efficiency frontier. This grade is consistent with good practice in the NSW water sector.

Source: IPART, [Water Regulation Handbook](#), July 2023.

B.2 WaterNSW self-assessed its proposal as Standard

WaterNSW self-assessed its proposal against each of the 12 guiding principles and provided an overall grade of 'Standard'. WaterNSW reported that its customers directly and explicitly expressed that a grading above standard was not required or desired due to the additional complications of incentive schemes that accompany an above standard rating. For more information, see [WaterNSW's self-assessment against IPART's 3Cs grading rubric](#).

WaterNSW identified 3 focus principles that it considered reflected the most important current priorities for its customers:

- one customer focus principle: Customer outcomes
- one cost focus principle: Robust Costs
- one credibility focus principle: Delivering.

In making its self-assessment, WaterNSW told us it prepared a pricing proposal that embeds customer preferences, demonstrates genuine day-to-day partnering with customers and provides value for money in meeting legislative and customer requirements at the lowest sustainable cost. WaterNSW said they had taken a fit for purpose approach which reflected the narrow nature of the Pipeline and lessons learnt from customers through the broader WaterNSW bulk water engagement process.

B.3 We made a preliminary assessment to inform our approach to the price review

After a water business submits its pricing proposal, we make a preliminary assessment based on the 3 gradings (see Box B.1 for the types of gradings possible under our water pricing framework). The full grading rubric is also available in Appendix E. This preliminary assessment helps us to determine the approach we take to reviewing a business's proposal.

Our preliminary grading for WaterNSW was Standard (see our [2025 Essential Water and the Murray Rive to Broken Hill pipeline price review - Issues Paper](#)). As a result, we took a standard approach to our price review process, which includes a detailed review of WaterNSW's expenditure. Our draft decisions on WaterNSW's efficient expenditure are set out in Chapter 3 of this report.

B.4 We graded WaterNSW's proposal as Standard

Our draft decision is:



32. To grade WaterNSW's pricing proposal as Standard.

Our reasons for a Standard grading

We took a holistic approach to assessing WaterNSW's proposal. We considered WaterNSW's self-assessment of its proposal against each of the 12 guiding principles. However, we allocated a single grade to the proposal as a whole, rather than allocating a grade to each principle, consistent with our water regulation framework. This recognises that each proposal's grading may not be a simple weighted average of the grades for each of the 12 principles. It also reflects the importance of businesses developing robust pricing proposals that balance customer, cost and credibility outcomes according to customer preferences.

Our draft decision is to accept WaterNSW's self-assessment of its pricing proposal and maintain our preliminary Standard grading.

In making this draft decision we considered:



Customers

WaterNSW conducted reasonable engagement with its small customer base, but the proposal lacks explicit performance targets, outcome delivery incentives, and accountability mechanisms. Key engagement materials were not provided, so the quality and depth of consultation could not be verified. Nevertheless, Essential Water, the Pipeline's primary customer, made a submission which stated it was satisfied with how WaterNSW's engaged with it in developing the pricing proposal. WaterNSW also submitted that offtake customers reported to be satisfied with current arrangements.



Costs

We found WaterNSW's proposed expenditure was largely reasonable, with minor adjustments to a small number of expenditure items. WaterNSW demonstrated a commitment to improving efficiency through the adoption of a 1% cumulative annual efficiency factor as part of its corporate efficiency strategy.



Credibility

We consider WaterNSW's proposal to be credible noting WaterNSW has now been operating the Pipeline for 6 years and has been delivering on outcomes and planned expenditure. The proposal is also modest in scope - a large proportion of Pipeline costs are governed by a competitive contract that is decoupled from WaterNSW's controlled costs.

We note however that:

- A) Many of the proposed performance measures were not specific enough and did not allow for sufficiently robust tracking. In addition, WaterNSW did not propose targets for many of its proposed performance measures.
 - B) Some performance measures established in the 2022 Determination were not adequately referenced or reported against - for example some operational and performance data was provided on an annual rather than a monthly basis.
 - C) There is limited evidence of learning from the past determination period being integrated into the current proposal - for example we did not see evidence of learnings from how the O&M contract performance has different from expectations, nor did we see WaterNSW addressing previously flagged areas of concern around allocation of overheads.
-

Appendix C 

Weighted average cost of capital



C

To calculate an allowance for the return on assets in the revenue requirement, we multiply the value of the regulatory asset base (RAB) in each year of the determination period by an appropriate rate of return. To do this, we determine the rate of return using a weighted average cost of capital (WACC).

This appendix shows the parameters we used to calculate the WACC.

C.1 We use our standard approach to calculate the WACC

We used our standard [2018 WACC methodology](#) to calculate the WACC. Under this approach we estimate one WACC based on current market data and one based on long-term average data. When our uncertainty index, which indicates the level of volatility in capital markets, is within one standard deviation of its mean value, we select the mid-point of the current and long-term WACC values. The uncertainty index was within this range at the time we calculated the WACC.

Table C.1 sets out the parameters we used to derive the 3.6% post tax real WACC for WaterNSW's Pipeline business.

Table C.1 WACC calculation using IPART's standard approach

	Step 1 – Market data		Step 2 – Final WACC range		
	Current	Long term	Lower	Mid-point	Upper
Nominal risk-free rate	3.8%	2.9%			
Inflation	2.6%	2.6%			
Implied Debt Margin	2.1%	2.1%			
Market Risk premium	5.9%	6.0%			
Debt funding	60%	60%			
Equity funding	40%	40%			
Gamma	100%	100%			
Corporate tax rate	0.25	0.25			
Effective tax rate for equity	30%	30%			
Effective tax rate for debt	30%	30%			
Equity beta	0.7	0.7			
Cost of equity (nominal post-tax)	7.9%	7.1%			
Cost of equity (real-post tax)	5.2%	4.4%			
Cost of debt (nominal pre-tax)	5.9%	5.0%			
Cost of debt (real pre-tax)	3.2%	2.3%			
Nominal Vanilla (post-tax nominal) WACC	6.7%	5.8%	5.8%	6.3%	6.7%
Post-tax real WACC	4.0%	3.2%	3.2%	3.6%	4.0%
Pre-tax nominal WACC	7.6%	6.7%	6.7%	7.1%	7.6%
Pre-tax real WACC point estimate	4.9%	4.0%	4.0%	4.4%	4.9%

a. Note: 5-year regulatory period. Market observations sampled to end Dec 2025. Transition to trailing average is complete.

Source: IPART analysis.

C.2 Our methodology to calculate WACC parameters

This section sets out some of the key methodologies we use to derive the component parameters used to calculate the WACC under our standard approach.

C.2.1 Gearing and beta

In selecting proxy industries, we consider the type of business the firm is in. If we cannot directly identify proxy firms that are in the same business, then we would consider which other industries exhibit returns that are comparably sensitive to market returns.

We adopted the standard values of 60% gearing and an equity beta of 0.7. We undertook preliminary proxy company analysis on several different types of industries with risk profiles similar to water businesses. Our analysis supported continuing to use an equity beta of 0.7 when 60% gearing is used.

Threshold for changed beta

Our 2018 WACC review included the following decisions concerning review of equity beta and gearing ratios:

- adopt the decision rule that before considering any revision to an established beta value for a price review:
 - prior beta estimate is more than one standard deviation from the mean of the current sample
 - there is persistent evidence over long period (i.e. a regulatory period of four years or longer) of changed beta.¹¹⁰

How we estimated beta this time

We have re-estimated equity beta and gearing ratio for the water industry so our current parameters remain appropriate.

We first estimated the equity beta for the water industry based on a proxy of publicly listed water utilities firms globally classified as Water Utilities (NEC) under The Refinitiv Industry Classification^a at the activity level.

Initially there were 27 stocks in the proxy set. However, only 13 stocks met our criteria^b for estimating equity beta. Based on these 13 firms, the median asset beta was **0.40** (the average is 0.47).

^a The Refinitiv Industry Classification, or The Refinitiv Business Classification as it is also known, is a market based classification of global companies where companies are classified into sectors and industries according to their primary business activities. It allows stakeholders to identify and select groups of comparable companies, facilitating peer group comparisons.

^b IPART's criteria for estimating equity beta considers the industry, firm characteristics, market conditions, operating profile, liquidity, and data quality. A full breakdown of all the criteria questions can be seen in *Table 2.1 Sample selection rule summary*, on page 5 of IPART's *Estimating Equity Beta for the Weighted Average Cost of Capital Final Report*.

The median debt to equity ratio was 1.11 (the average is 0.96), equivalent to a debt-to-total asset ratio (IPART's definition of gearing ratio) of 53% (49% based on the mean debt-to equity ratio). The re-levered beta, using the median asset beta and a target gearing ratio of 60%, was estimated at 1.01 (1.18 if the mean values are used).

Threshold for changed beta is not met

The mean of the current sample for equity beta was 1.18 and the standard deviation was 0.51.

Currently, we adopt an equity beta of 0.7 and gearing ratio of 60% for the water industry. This prior beta estimate is within one standard deviation of the new sample mean ($1.18 - 0.51 = 0.67 < 0.7 < 1.69 = 1.18 + 0.51$). Based on this analysis, we considered that the threshold for any change to our current equity beta and gearing ratio is not met.

C.2.2 Sampling dates for market observations

For the draft report we applied a sampling period to the end of December 2025.

C.2.3 Tax rate

We assumed the Benchmark Equivalent Entity is a large public water business. The scale economies that are important to firms of this type suggest that the Benchmark Equivalent Entity would be likely to be well above the turnover threshold at which a firm becomes ineligible for a reduced corporate income tax rate. Therefore, we used a tax rate of 30%.

C.2.4 Regulatory period

We applied the WACC estimate for the duration of the determination period, which in this case is 5 years for the WaterNSW Pipeline.

C.2.5 Application of trailing average method

We have not applied a transition to the trailing average. Our 2018 review of the WACC method introduced a decision to estimate both the long-term and current cost of debt using a trailing average approach, which updates the cost of debt annually over the regulatory period.

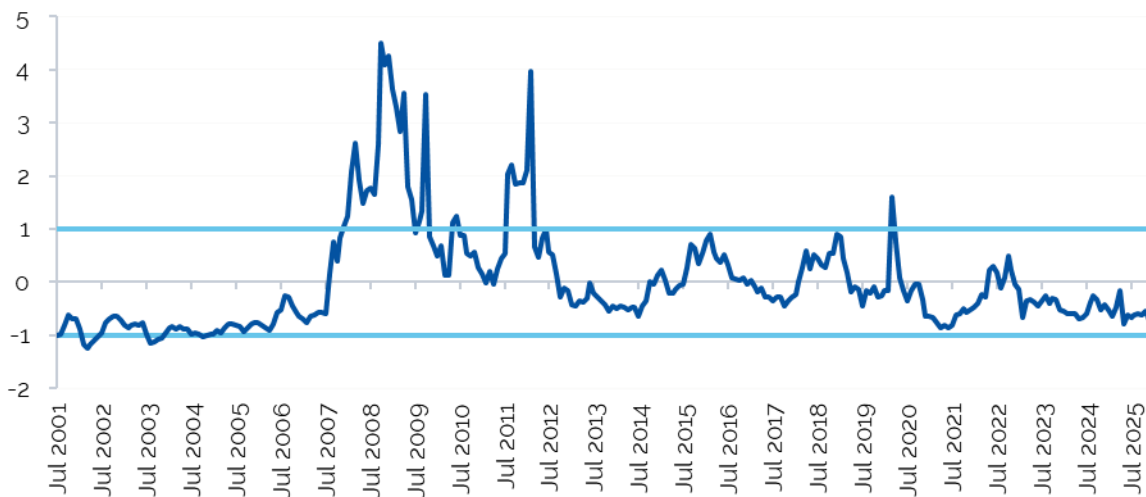
The transition to the trailing average was applied in WaterNSW's 2022 determinations (excluding the MDB valleys of WaterNSW, which were subject to the ACCC WACC at that time), so we consider that the business is now fully transitioned.

C.2.6 Uncertainty index

Under current IPART's WACC method, we estimate one WACC using current market data and one using long-term average data. When our uncertainty index — which indicates the level of volatility in capital markets — is within one standard deviation of its mean value, we select the mid-point of the current and long-term WACC values.

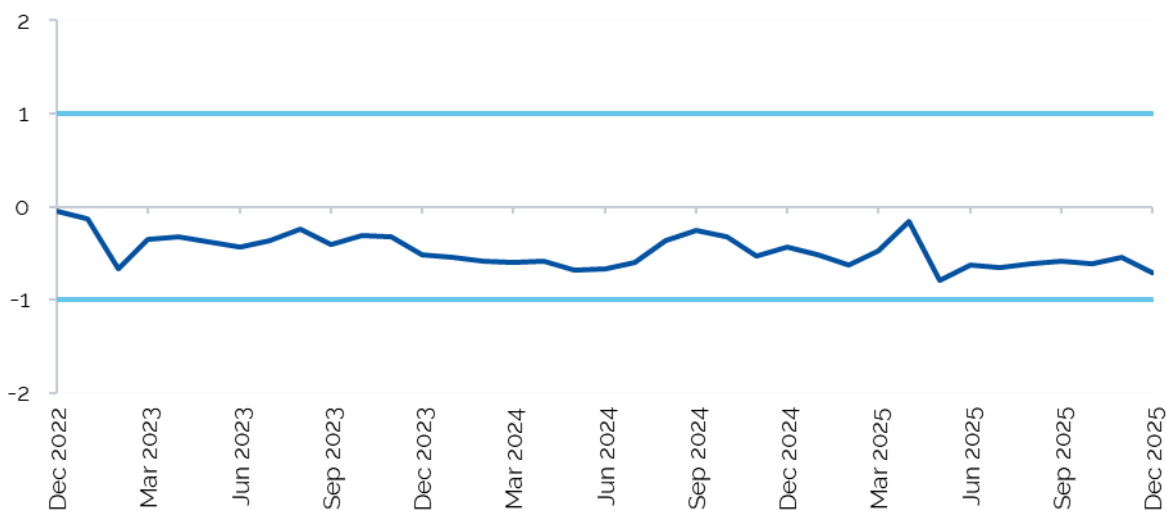
As IPART's uncertainty index (Figure C.1 and Figure C.2) show, the uncertainty index for market observations to the end of June 2025 (for long term uncertainty) and December 2025 (for short term uncertainty) are within one standard deviation of their mean value. Therefore, we have set our Draft Report WACC based on the mid-point of the current and long-term WACC values.

Figure C.1 IPART's long term uncertainty index, standard deviations



Source: Refinitiv and IPART calculations.

Figure C.2 IPART's short term uncertainty index, standard deviations



Source: Refinitiv and IPART calculations.

Appendix D >>

Financeability assessment

D

When setting prices, we consider the financial sustainability of the business resulting from our pricing decisions. To do this, we undertake a financeability test to assess how our pricing decisions are likely to affect the business's financial sustainability, and ability to raise funds to manage its activities, over the upcoming regulatory period. The financeability test is based on the approach outlined in IPART's 2018 *Review of our financeability test* (2018 Financeability Review).¹¹¹

D.1 IPART's approach to conducting the financeability assessments

IPART has conducted both the benchmark and actual tests on the financeability of WaterNSW's Pipeline business over the next 5 years.

The difference between the two tests is that to conduct the:

- benchmark test: we set the inputs consistent with the indicative parameters in the building block approach such as using the real cost of debt and level of gearing in the WACC. For the benchmark test, we used:
 - 2.8% as the real cost of debt
 - 60% as the gearing ratio.
- actual test: we use actuals provided by the business which may mean the inputs used to calculate the WACC may be different, such as using the forecast actual cost of debt and gearing. For the actual test, we used:
 - 5% as the cash cost of debt^a
 - 61% as the gearing ratio based on WaterNSW's 2024-25 financial statements.^b

The purpose of these 2 approaches is that:

- Conducting the test on the benchmark business would identify any estimation and cash flow impacts arising from our building block approach.
- Conducting the test on the actual business would generate a warning if the actual business segment might face a financeability concern over the 5-year determination period.

Then for each of the benchmark and actual financeability tests, IPART calculates 3 ratios as described in Box D.1.

^a The 'actual' financeability test measures the ICR based on the business's expected actual cash cost of debt. The cash cost of debt may differ from the nominal (or accounting) cost of debt, for example when some of the interest cost is capitalised. We analysed WaterNSW's financial statements for 2023-24 and 2024-25 and found that their cash cost of debt is 0.5 to 1 percentage points lower than their nominal (or accounting) cost of debt. Since WaterNSW did not provide information on their expected nominal or cash cost of debt, we have assumed they pay a nominal cost of debt of 5.5% (derived from our draft WACC). To be conservative, we then applied a 0.5% reduction to the nominal cost of debt to derive a 5.0% cash cost of debt. We intend to seek further information from WaterNSW before the final report.

^b WaterNSW financial statements do not present separate financial statements for its Pipeline business. Therefore, we have assumed the Pipeline portion to be the difference between "WaterNSW Consolidated" and "WaterNSW Parent".

Box D.1 Our financeability target ratios for the benchmark test

For the benchmark test, we calculate the financial ratios assuming the real interest rate (i.e., excluding inflation) and gearing set in the WACC. For the actual test, we calculate the financial ratios using the business's actual interest rate and gearing level.

Real Interest Coverage Ratio (RICR)

The RICR is a measure of the business's ability to service interest payments on debt. Our targets are:

- >2.2x for the benchmark test
- >1.8x for the actual test.

The 1.8x target for the actual test was set considering the Interest Coverage Ratio (ICR) values used by Moody's, S&P Global and Fitch Ratings, including nominal metrics used for water and energy businesses. IPART includes a small uplift for the benchmark target (2.2x) because the standard financial ratios are not intended to be applied to a real interest rate situation.

Real Funds from Operation (FFO) to Debt

FFO to Debt measures how much free cash a business generates (i.e. after covering its operating costs, interest expense and tax) relative to the size of its total borrowings. Therefore, it is a measurement of a business's ability to generate cash flows to repay the principal of the debt. Our targets are:

- >7.0% for the benchmark test
- >6.0% for the actual test.

The 6.0% target for the actual test was set considering the FFO to Debt values used by Moody's, S&P Global and Fitch Ratings, including nominal metrics used for water and energy businesses. IPART includes a small uplift for the benchmark target (7.0%) because the inflation component of the interest rate is capitalised.

Net Debt to RAB Gearing ratio

Gearing is a measurement of the entity's financial leverage, which demonstrates the degree to which it is funded by creditors. A higher gearing ratio means a higher-risk capital structure – that is, a higher proportion of assets are funded by debt which, unlike equity, requires fixed interest payments that the business must continue to maintain over time. A gearing ratio above 70% would indicate a relatively high-risk capital structure. Our target is <70% for both the benchmark and actual tests.

Then to calculate each of the 3 financeability ratios under the benchmark and actual tests we used the decisions that we reached for:

- efficient expenditure as outlined in Chapter 3
- revenue which is based on our prices and volumes (Chapter 4 and Chapter 5).

D.2 IPART's financeability assessment

Table D.1 and Table D.2 show the benchmark and actual financeability test results. Overall, the results indicate that our draft decision would allow an efficient benchmark pipeline business to remain financeable over the determination period. Each of the test results is discussed in the sections below.

Table D.1 Draft report financeability test - benchmark test

	2026-27	2027-28	2028-29	2029-30	2030-31	
Real Interest Coverage Ratio (RICR)						
Benchmark test	>2.2x	3.0x	3.1x	3.0x	3.1x	3.2x
Does it meet the target?		✓	✓	✓	✓	✓
Real FFO / Net Debt						
Benchmark test	>7.0%	5.6%	5.8%	5.6%	5.9%	6.1%
Does it meet the target?		✗	✗	✗	✗	✗
Net Debt / RAB						
Benchmark test	<70%	60%	60%	60%	60%	60%
Does it meet the target?		✓	✓	✓	✓	✓

Table D.2 Draft report financeability test - actual test

	2026-27	2027-28	2028-29	2029-30	2030-31	
Interest Coverage Ratio (ICR)						
Actual test	>1.8x	1.7x	1.8x	1.8x	2.0x	2.1x
Does it meet the target?		✗	✓	✓	✓	✓
FFO / Net Debt						
Actual test	>6.0%	3.2%	3.6%	3.8%	4.4%	4.9%
Does it meet the target?		✗	✗	✗	✗	✗
Net Debt / RAB						
Actual test	<70%	56%	54%	52%	50%	48%
Does it meet the target?		✓	✓	✓	✓	✓

D.2.1 Interest Coverage Ratio

The Real Interest Coverage Ratio (RICR) under the benchmark test for WaterNSW's Pipeline business exceeds the target of >2.2x in all 5 years and remains stable at around 3.0x to 3.2x. This indicates that an efficient benchmark business would have sufficient free cash flow to comfortably meet its real interest payments in every year, consistent with the interpretation adopted in the 2018 Financeability Review and our 2022 Broken Hill pipeline decision.

On our actual assumptions for the pipeline's capital structure and cost of debt, the Interest Coverage Ratio (ICR) is below our 1.8x target in 2026-27, but improves to meet or marginally exceed the target in the subsequent four years of the determination period (Table D.2).

D.2.2 Funds from Operation to Debt

Under both the benchmark and actual tests, the Funds from Operation (FFO) to Debt ratio is below target throughout the determination period.

The relatively low FFO to debt ratio of WaterNSW's Pipeline business reflects that it has an asset base of a relatively long-lived assets, which means the initial investment in assets is recovered over a relatively long period of time through the depreciation allowance.

We also found it to be the case that this ratio was below target when conducting our benchmark financeability tests to set prices for the 2025 review of WaterNSW's Greater Sydney business. And the 2022 review of WaterNSW's prices for the Murray River to Broken Hill Pipeline. The relatively lower FFO to Debt results in these reviews were attributable to longer-lived assets.¹¹²

A future review of the financeability test could consider whether to vary the target FFO to Debt ratio to better account for differences in each business' average asset life.

Given this context, the FFO to debt results in Table D.1 and Table D.2 do not indicate financeability issues.

D.2.3 Net Debt to RAB Gearing Ratio

The Net Debt to RAB Gearing ratio meets the upper target limit of 70% in both the benchmark and actual tests. Actual Net debt to RAB is comfortably below 70% throughout the 2026 determination period and declines over time as the Pipeline's debt is repaid.

The benchmark results will always reflect our decision to maintain the gearing ratio at 60%, which is based on our review of market evidence. The actual test result implies that WaterNSW's Pipeline business by itself is financially viable in terms of its capital structure.

Appendix E 

Grading rubric in the Water
Regulation Handbook



E

Table E.1 Guidance for customer principles

1. Customer centricity

How well have you integrated customers' needs and preferences into the planning and delivery of services, over the near and long term?

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Develop customer engagement strategy		
<ul style="list-style-type: none"> • The business has a published customer engagement strategy which: <ul style="list-style-type: none"> - sets out how it seeks to understand what matters to customers, and identifies the outcomes that maximise long-term customer benefit at an efficient cost - considers the level of influence customers have in how services are delivered - identifies the role of customer engagement in understanding customer preferences - commits to engage with customers in the pricing proposal and for major investments. • The strategy should be well structured and easy for customers to follow, and articulate clear roles and responsibilities of customers, regulator(s) and business. 	<ul style="list-style-type: none"> • The strategy demonstrates that customers have a high level of influence in how services are delivered, and commits to gain insights from customers through a variety of methods. 	<ul style="list-style-type: none"> • The strategy empowers customers to co-develop the most material aspects of its pricing proposal that impact price and service.
Customers influence business outcomes		
<ul style="list-style-type: none"> • Customer insights and engagement influence customer outcomes, inform business decisions, and short-, medium- and long-term plans. 	<ul style="list-style-type: none"> • Customer insights are linked to customer outcomes, which inform ongoing improvements in the way services are delivered to customers. 	
Processes support customer centricity		
<ul style="list-style-type: none"> • Systems in place to respond to ongoing customer feedback. • Consumer facing businesses propose assistance programs for customers experiencing vulnerability (e.g. hardship programs, payment plans, access to concessions or other). 	<ul style="list-style-type: none"> • Learns from and keeps up with peers and industry best practice engagement methods. • Consumer facing businesses propose tools or processes to support early identification and interventions for customers experiencing a range of vulnerability circumstances. 	<ul style="list-style-type: none"> • Clear evidence of continual improvement in customer value across the business where it reflects on, and incorporates, learnings from its engagement processes.
		<ul style="list-style-type: none"> • Consumer facing businesses propose simplifications to assist customers, including those experiencing vulnerability, improve accessibility and understanding (e.g. customer contracts, bills and accounts and water literacy).

2. Customer engagement

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

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Engage on what matters to customers		
<ul style="list-style-type: none"> Select issues for engagement that matter to customers. 	<ul style="list-style-type: none"> Customers involved in setting priorities that matter most for deeper engagement. 	<ul style="list-style-type: none"> Collaborates with and empowers customers (and/or customer representatives) to develop solutions in customers' long-term interests.
Choose appropriate engagement methods		
<ul style="list-style-type: none"> Suitable consultation method/s have been chosen to reach a representative customer base and/or their advocates, such as renters, home-owners, vulnerable groups, and businesses. Opportunities for two-way communication with customers exist. Scope of engagement proportional to the level of expenditure and the impact of the project. 	<ul style="list-style-type: none"> Chooses effective methods to provide all customers – including more difficult-to-reach customers – with a high level of influence in how services are delivered. Responses are then triangulated and tested against other information. 	<ul style="list-style-type: none"> Continuously seeks to improve methods of engagement and explore innovative methods.
Engage effectively		
<ul style="list-style-type: none"> Unbiased, clear explanation of context and objectives. Participants are informed of the impact of their feedback. Engagement is easy to understand, and customers' understanding is tested and where relevant, technical literacy/capacity is supported for effective engagement. Culturally and linguistically diverse groups are supported in their engagement. Information is accurate, objective, tells the whole story and is correctly targeted to its audience. Clear explanations of investment options, service levels, and uncertainties. 	<ul style="list-style-type: none"> Engagement includes clear explanation of options (including price differences and any potential trade-offs), and participants are confident their feedback will influence outcomes. 	

3. Customer outcomes

How well does your pricing proposal link customer preferences to proposed outcomes, service levels and projects?

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Customers drive outcomes		
<ul style="list-style-type: none"> Propose outcomes, based on customer engagement, that capture what customers want you to deliver. Link proposed expenditure to these outcomes. 	<ul style="list-style-type: none"> Outcomes are concise, specific, measurable and written from the customers' perspective. They are clearly aligned to customer preferences and proposed expenditure. 	<ul style="list-style-type: none"> Outcomes and supporting output measures and targets are co-designed with customers, and proposals are supported by customers.
Performance measures support outcomes		
<ul style="list-style-type: none"> Propose performance measures for each outcome. Propose performance targets for each measure, referencing IPART's principles, with: <ul style="list-style-type: none"> internally consistent short-, medium- and long-term targets targets justified based on past performance and other suitable industry benchmarks targets that, at a minimum, meet customer protection operating licence standards and other regulatory requirements. 	<ul style="list-style-type: none"> Targets show a step change improvement to customer value and include adequate protections for individual customers. 	<ul style="list-style-type: none"> Where supported by customer willingness to pay, service targets exceed past performance and other suitable industry benchmarks by an ambitious but realistic margin.
Accountability for customer outcomes		
<ul style="list-style-type: none"> Clear mechanisms so the business is accountable for delivering outcomes. 	<ul style="list-style-type: none"> All outcomes include steps the business will take if not meeting targets, and where appropriate, are supported by outcome delivery incentive (ODI) payments/penalties. 	<ul style="list-style-type: none"> All important customer outcomes with high customer value would typically be supported by ODI payment/penalty rates and targets.

4. Community

Are you engaging with and considering the broader community to understand their objectives, including traditional custodians of the land and water, while ensuring services are cost-reflective and affordable today and in the future?

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Identify community outcomes		
<ul style="list-style-type: none"> Engage with, and consider the broader community, including Aboriginal and Torres Strait Islander peoples, to identify community outcomes. Assess the benefits and costs to the customer of delivering on broader community values, as they relate to the provision of regulated services. Consider costs/benefits and bill impacts before proposing expenditures. 	<ul style="list-style-type: none"> Outcomes have demonstrated customer value and support, with awareness of bill impacts. 	<ul style="list-style-type: none"> Demonstrate step change improvements in community outcomes, which prioritise customer preferences revealed through engagement.
Community outcome performance measures		
<ul style="list-style-type: none"> Community outcomes have targets that are measurable, have intermediate steps and milestones built in (as needed). 	<ul style="list-style-type: none"> Work and partner with local groups and other stakeholders to propose and deliver community outcomes within the scope of its services. 	<ul style="list-style-type: none"> Demonstrate innovative approaches to promote customer and community value.
Accountability for community outcomes		
<ul style="list-style-type: none"> Clear mechanisms so the business is accountable for delivering community outcomes. 	<ul style="list-style-type: none"> Mechanisms include steps the business will take if not meeting targets. 	

5. Environment

Have you identified and met broader environmental objectives, while ensuring services are cost reflective and affordable today and in the future?

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Identify environmental outcomes		
<ul style="list-style-type: none"> Meet all regulatory requirements, including environmental requirements, at an efficient cost. Follow government directions^a and regulatory obligations. Set environmental outcomes that relate to the provision of regulated services, consistent with customer preferences, community views and waterway quality guidelines. Consider long-term environmental costs/benefits and bill impacts before proposing expenditures. Propose cost-efficient expenditure to manage and adapt to the impacts of climate change. 	<ul style="list-style-type: none"> Actively engage with other regulators, evaluate prospective government directions and obligations from the perspective of promoting the customer's long-term interests. Incorporate climate change into forecasting models and undertake climate change adaptation and mitigation actions. 	<ul style="list-style-type: none"> Demonstrate step change improvements in environmental outcomes, revealed through engagement, which prioritise delivery of environmental outcomes that customers and the community value most.
Environmental outcome performance measures		
<ul style="list-style-type: none"> Environmental outcomes have targets that are measurable, have intermediate steps and milestones built in (as needed). 	<ul style="list-style-type: none"> Work and partner with community groups, other businesses, stakeholders and government, to propose and deliver outcomes that meet regulatory requirements, promote customer value and provide environmental benefits. 	<ul style="list-style-type: none"> Demonstrate innovative approaches which promote customer value and maximise environmental benefits.
Accountability for environmental outcomes		
<ul style="list-style-type: none"> Clear mechanisms so the business is accountable for delivering environmental outcomes. 	<ul style="list-style-type: none"> Mechanisms include steps the business will take if not meeting targets. 	

^a Government directions are typically made by Ministerial order through the *State Owned Corporations Act 1989* (the SOC Act) or other power under legislation

6. Choice of services

Are you providing opportunities to reflect customers' varied preferences for the tariffs and additional services they are willing to pay for?

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Consider differentiated service offerings		
<ul style="list-style-type: none"> No requirements at Standard. 	<ul style="list-style-type: none"> Engage with customers on opportunities for differentiated service offerings, including standard add-on mass market tariff options (e.g. carbon offsets), where it is cost efficient to do so. Work with government and developers in growth planning to offer additional services and supply options to new developments. 	<ul style="list-style-type: none"> Offer customers innovative tariffs and products above licence obligations, consistent with customers' preferences if there is evidence of customer demand.

Table E.2 Cost principles

7. Robust costs

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

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
Justify proposed expenditure		
<ul style="list-style-type: none"> Proposed operating expenditure is consistent with past expenditure and clearly explains any step changes or trends. Proposed capital expenditure: <ul style="list-style-type: none"> is clearly explained identifies baselines for recurrent expenditure and provides justification for any changes it proposes over time for large capital projects with a clear scope is supported by cost-benefit analysis considering alternative options. 	<ul style="list-style-type: none"> Changes in expenditure are supported by quantitative evidence which demonstrates how it promotes customer value (e.g. in proposing step changes for operating expenditure, and justification in business cases for large capital projects). 	<ul style="list-style-type: none"> Proposes operating expenditure and capital expenditure that maximises customer value, supported by modelling which shows it is below industry benchmarks.
Optimise between operating expenditure and capital expenditure		
<ul style="list-style-type: none"> Demonstrates consideration has been given to operating expenditure and capital expenditure trade-offs. 	<ul style="list-style-type: none"> Uses quantitative evidence to show that proposed operating expenditure and capital expenditure minimises net life-cycle costs. 	<ul style="list-style-type: none"> Takes into account the potential and likelihood for cost saving innovations when proposing a balance of operating expenditure and capital expenditure.

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
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Accountability for expenditure outcomes

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> Expenditure performance targets have been identified that maintain compliance with licence conditions, other regulatory requirements and are consistent with customer preferences. | <ul style="list-style-type: none"> Demonstrates how performance targets have been developed through customer engagement and deliver customer value. | <ul style="list-style-type: none"> Has adopted and implemented robust processes so that forecasts are justified, evidence-based and deliverable. |
|--|--|---|

8. Balance risk and long-term performance

How well do you weigh up the benefits and risks to customers of investment decisions, and how consistent are they with delivering long-term asset and service performance?

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
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Understand long-term performance

- | | |
|---|---|
| <ul style="list-style-type: none"> Investment and asset management decisions demonstrate a balancing of the risks and benefits to the customer and business in terms of long-term asset and service performance. | <ul style="list-style-type: none"> Provides additional evidence optimising this balance of risks, using best practice, probabilistic investment decision and asset management systems. |
|---|---|

Manage risks and reprioritise

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> Demonstrates all cost drivers and has mechanisms to monitor cost risks and reprioritise expenditures and asset management strategies as necessary. Outlines its approach to manage long-term risks, including climate change. | <ul style="list-style-type: none"> Proposal commits to accept more risk where it has benefits for customers. Demonstrates it has organisational resilience to absorb cost impacts arising from changes in the operating environment. | <ul style="list-style-type: none"> Proposal includes capability and strategies to optimise and manage the value of risk factored into its forecasts and proposals. |
|--|--|---|

9. Commitment to improve value

How much ambition do you show in your cost efficiency targets and what steps have you taken to demonstrate commitment to deliver on your promises?

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
-----------------------	--	---

Develop cost efficiency strategy

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> The business has a management^b approved and externally published cost efficiency strategy that includes: <ul style="list-style-type: none"> an annual efficiency factor across operating expenditure and capital expenditure productivity improvements achieved and proposed, which highlight that the business is adopting innovations | <ul style="list-style-type: none"> Proposal is informed by cost efficiency strategy, justifies an ambitious annual expenditure efficiency factor and explains reasons for its current performance. | <ul style="list-style-type: none"> Proposes efficiency targets which would lead to a significant step change in cost efficiencies below historical costs and industry cost benchmarks. |
|---|---|---|

^b Depending on the organisation structure this approval may be Board, Council or executive leadership approval.

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
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- how it has performed against current period targets.

Accountability for cost efficiency outcomes

- Has clear mechanisms so the business is accountable for achieving its proposed cost efficiency outcomes.

10. Equitable and efficient cost recovery

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

Standard Expectations	Advanced Additional expectations to Standard	Leading Additional expectations to Advanced
---------------------------------	--	---

Propose cost-reflective prices

- | | | |
|--|--|---|
| <ul style="list-style-type: none"> • Propose cost-reflective maximum prices for customers, with: <ul style="list-style-type: none"> – modelling to justify tariffs over the next determination period – a balance of fixed and usage charges that take into account the long run marginal cost (LRMC) of providing services. | <ul style="list-style-type: none"> • Provides modelling to show that proposed prices: <ul style="list-style-type: none"> – are sustainable over time, and would avoid large future bill impacts – have been informed by LRMC model estimates – consider the impact of climate change on the level and structure of prices addressed. • Justifies the appropriate form of price control that promotes the long-term interests of customers. | <ul style="list-style-type: none"> • Provides comprehensive modelling to support its proposed recovery of costs, including: <ul style="list-style-type: none"> – catchment level LRMC estimates where appropriate (to justify demand and supply side responses to delay augmentations or prioritise investments) – longer-term pricing paths supported by long-term cost estimates. |
|--|--|---|

Justify within-period revenue adjustments

- Provides a robust justification for any revenue adjustments, consistent with IPART's revenue hierarchy principles.

Table E.3 Credibility principles

Credibility	Requirements (all levels)
<p>Delivering Can you provide assurance that you have the capability and commitment to deliver?</p>	<ul style="list-style-type: none"> • Proposed expenditures and service outcomes can be delivered in the timeframe proposed. • Sets out how progress against key investments and performance targets (both short- and long-term) will be regularly monitored and communicated to its customers. • Plans for foreseeable future challenges, including strategies for how it will reprioritise and adapt as changes arise. • The proposal has been approved by the Board (or equivalent), who endorse that the proposal would best promote the long-term interests of its customers. • The proposal has evidence of a robust assurance process to ensure the veracity of information provided to IPART.
<p>Continual improvement Does the proposal identify shortcomings and areas for future improvement?</p>	<ul style="list-style-type: none"> • Self-assessment is justified. • Performance targets have been monitored and communicated to customers over the previous period, consistent with past regulatory proposals. You have justified and explained past performance to customers. • Demonstrates how experience and lessons from past determination period/s have been integrated into current and future/long-term strategies, where gaps remain, and how future plans will address these. • Identifies any shortcomings in its proposals including its plans to address any shortfalls.

Appendix F >>

Glossary



F

Term	Definition
ABS	Australian Bureau of Statistics.
Annual revenue requirement	The notional revenue requirement in each year of the determination period.
Base-Trend-Step approach (BTS)	The approach IPART will use when setting operating expenditure allowances. 'Base' refers to the efficient recurring expenditure required each year, calculated from recent past data. 'Trend' refers to predictable changes in expenditure over time due to known factors such as demand growth or inflation. 'Step' refers to changes in expenditure caused by new requirements or new processes.
Benchmark Efficient Entity	A conceptual or actual business entity used to establish a standard of performance, efficiency, or tax treatment against which other entities are measured.
Building block model	IPART's standard method for calculating a business's required revenue. Costs are broken down into 5 components to establish the amount of revenue needed to recover them.
Cap-and-collar	Cap on the maximum amount of benefits to be paid out through financial incentive schemes.
Capital Efficiency Sharing Scheme (CESS)	An incentive scheme to provide water businesses with a fixed share of any efficiency gains (or losses) associated with capital expenditure during a determination period.
Carve-out	Mechanism to allow businesses to exclude some uncontrollable costs from the calculation of capital expenditure incentive schemes.
Cost pass-through	Tool to allow businesses to pass some costs directly to customers within the determination period, under limited circumstances.
Consumer Price Index (CPI)	CPI refers to the all groups consumer price index weighted average of 8 capital cities. This is published by the Australian Bureau of Statistics; or, if the Australian Bureau of Statistics does not, has not yet, or ceases to publish the index, then CPI will mean an index determined by IPART
Customer	In the context of this report, 'customer' refers to direct bill payers as well as end users who might not be in a direct paying relationship with a water business (for example, an occupant or tenant of a serviced property).
Net Debt to RAB gearing ratio	This is calculated as debt divided by the regulatory value of fixed assets, ie, the RAB. It measures a business's leverage.
Determination period	The period of time over which a determination of maximum prices applies.
Discount factor	The factor used to modify an annual amount to convert it to net present value terms.
Efficiency Benefit Sharing Scheme (EBSS)	An incentive scheme to provide water businesses with a fixed share of any efficiency gains (or losses) associated with operating expenditure during a determination period.
Efficiency factor	Factor applied to a business's forecast expenditure, when appropriate, to adjust it for ongoing productivity improvements.
Expenditure review	IPART's method for reviewing a business's expenditure so customers are only paying efficient costs.
Financial incentives	Mechanisms to adjust a business's revenue requirement based on its performance, for examples by rewarding the quality of a proposal (ex-ante incentives) or realised improvements in efficiency (ex-post incentives).
Funds from Operation (FFO) to Debt	FFO to Debt measures how much free cash a business generates (i.e. after covering its operating costs, interest expense and tax) relative to the size of its total borrowings.
GL	Gigalitre (one billion litres).
Interest Coverage Ratio (ICR)	This is calculated as Funds From Operations (FFO) plus interest expense divided by interest expense. This ratio measures a business's ability to service its debt burden using the business's cash flows.
IPART	Independent Pricing and Regulatory Tribunal.
IPART Act	The <i>Independent Pricing and Regulatory Tribunal Act 1992</i> , which establishes IPART's regulatory role and functions in New South Wales.

Term	Definition
kL	Kilolitre (one thousand litres)
ML	Megalitre (one million litres).
ML	Megalitre (one million litres)
Net Present Value (NPV)	The discounted value of a stream of benefits (or costs) taking into account the time value of money.
Notional Revenue Requirement, (NRR)	The revenue needed by a business to recover the cost of providing their services.
Operating licence	A regulatory instrument that authorises a water business to undertake its functions. Issued under the requirements of an Act by a Minister or the Governor, it contains terms and conditions governing a water business' operations. Not all water businesses are subject to a licence.
Outcome Delivery Incentive (ODI)	Outcome Delivery Incentive: An incentive scheme to provide financial benefits or penalties for achieving or not achieving customer agreed outcomes respectively.
Regulatory Asset Base (RAB)	Calculated as the economic value of all assets the business owns. The RAB is used as basis to calculate the revenue we provide to businesses in our determinations.
Revenue requirement	Amount of revenue a business should recover from customers to cover its costs, as calculated by IPART during a price determination.
Revenue risk	The risk of businesses not collecting enough revenue from customers because of unforeseen increases in expenditure that aren't reflected in the revenue allowance.
Stakeholder submission	Submission prepared by stakeholders in the sector (such as water businesses, advocacy groups, and other regulators) in response to our Issues Paper.
Target revenue	The revenue Essential Water generates from maximum prices set by IPART.
True-up	Mechanism to allow businesses to pass some unexpected costs to consumers in the following determination period. This is reserved for limited circumstances.
Underspend	Actual expenditure savings in any year of a determination period compared to forecast expenditure. A negative underspend is an overspend.
Water regulation framework	There are 3 pillars of our water regulation framework: Customer, Cost, and Credibility. The 12 principles we use to grade businesses' proposals are grouped under these pillars. Further detail can be found in our Water Regulation Handbook .
WaterNSW Pipeline	WaterNSW's Murray River to Broken Hill pipeline.
Weighted average cost of capital (WACC)	The post-tax real cost of capital as determined by IPART as part of a regulatory review.

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